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Organizational Reputation, the Content of Public Allegations, and Regulatory Communication

Sharon Gilad, Moshe Maor, Pazit Ben-Nun Bloom
The Hebrew University of Jerusalem

ABSTRACT

How does the content of public allegations impact regulatory communication strategies? Employing a multinomial logistic regression analysis and an original data set, this article analyzes the Israeli banking regulator's nuanced responses to public expressions of opinion between 1996 and 2012. We demonstrate this agency's greater propensity to acknowledge problems, yet mostly shift blame to others when faced with claims that regulation is overly lenient, and to deny allegations that regulation is excessive. These findings, although based on one institution, are important because they demonstrate an agency's differential response to external allegations, given their content and its assessment of the relative threat to its reputation. They also suggest that external audiences may be able to shape agency attention and response by carefully framing their claims in light of their understandings of agencies' distinct reputational vulnerabilities.

INTRODUCTION

Recent accounts have looked at regulatory agencies' strategic crafting and management of their organizational reputations. That is, external perceptions of their roles, capabilities, and performance (Carpenter 2010). The scholarship focuses on the way regulators' concerns over reputation shape their decision-making processes and outputs. Our article contributes to this growing body of scholarship by focusing on regulatory communication, a terrain that has been neglected by previous studies of bureaucratic reputation. This neglect is substantial, given the growing role of communication in response to declining public trust in government (Im et al. forthcoming; Liu, Horsley, and Yang 2012) and the pressures towards and transition into transparent and accountable regulatory governance (cf. Coen and Thatcher 2005; Grimmelikhuijsen and Meijer, forthcoming; Lodge 2004).

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The article builds on a recent contribution to the field of bureaucratic reputation, which examines how a regulatory agency's communication patterns vary, given its reputation across functional areas (Maor, Gilad, and Ben-Nun Bloom 2013). In that article, the authors suggest that in domains where an agency enjoys a strong reputation, regulatory silence is the rule, because most challenges do not pose a threat to the agency's established reputation. Equally, an agency can afford to keep silent when facing challenges regarding domains that are secondary to its overall reputation. But in domains where an agency's reputation is weak, and even more so, if its reputation is still evolving, challenges of similar levels of salience made by audiences of similar clout are less likely to be dismissed. These findings indicate that agencies' attention to—and management of—external opinions is shaped by their understanding of their distinct and multidimensional reputations. However, they are limited in their focus on regulatory communication as a binary choice between silence and talk, avoiding more elaborated analysis of the content of regulatory response. The latter is important because of the different reputational and operational costs, risks, and benefits that are associated with different types of responses.

Analyzing the nuanced content of regulatory response to audiences' assessments of their performance requires enrichment of theories of bureaucratic reputations by adoption of the fine categorization of public officials' "presentational strategies," which has been developed in the related stream of blame-avoidance theory (Hood 2011). Building on Hood (2011), this article provides a theoretical framework for explaining regulatory choice between silence, denial of a problem altogether, and admission that there is a problem and either shifting blame to others or assuming responsibility. Our key hypothesis contends that the content of external opinions, that is, the type of allegations, should affect the agency's assessment of the threat to its reputation and its consequent choice of response. We propose that all else being equal, certain types of claims are inherently more threatening and therefore more likely to induce an acknowledgment of a problem in order to signal the agency's acquiescence to public expectations. In particular, we expect agencies to be more inclined to acknowledge audiences' claims of underregulation as opposed to overregulation. We argue that claims of underregulation pose a greater threat to regulatory reputation because they imply agency failure to accomplish its distinct core mandate for protecting a specific public value (e.g., protecting the public from unintended side effects of dangerous drugs). By comparison, claims of overregulation refer to the negative externalities of regulation (e.g., firms' loss of profits that could have been made had a drug been authorized faster; or patients' continued suffering, which could have been mitigated by a new drug's pending authorization). Nonetheless, in responding to claims of underregulation, agencies are likely to further weigh the consequences of admitting a problem and accepting responsibility for their long-term operational costs and damage to reputation in the event of successive failure. These long-term costs and risks explain why an agency might choose to acknowledge an alleged harm and yet shift responsibility to others.

These theoretical propositions are supported by our empirical analysis. Based on quantitative media-content analysis of the Israeli banking regulator's responses to opinions and criticism between 1996 and 2012, we find that this agency's choice between silence, problem denial and problem admission is shaped by the content of the allegations that it faces. When audiences claim that regulation is overly lenient (namely, underregulation), the regulator is relatively inclined to admit a problem, yet shift blame to others, rather than either keeping silent or denying the alleged harm. Conversely, when audiences claim that regulation is excessive, the regulator is inclined to deny the significance of the alleged harm and justify the public value of regulatory intervention. These findings hold while controlling for the context of allegations—their salience and the visibly severe consequences of the underlying incidents that they refer to—and for the variation in the regulator's reputation reserves across functional areas.

Although based on a single case, and therefore only tentatively generalizable to other types of agencies and to other regulatory contexts, these findings may have both theoretical and practical implications. First, they contribute to current literature on bureaucratic reputation by demonstrating that regulators are more or less sensitive to audiences' diverse allegations, given their content. This finding challenges the assumption that agencies are equally responsive to all "external signals" (Noll 1985). Second, our theoretical and empirical analyses highlight a fine distinction between agencies' management of risks to their distinct reputation and their management of several other threats to their autonomy. Third, our findings imply that audiences may be able to trigger different agency responses by carefully choosing how to frame their allegations—for example, as a problem of overregulation versus underregulation.

The rest of the article proceeds in six sections. The first discusses recent advances in the study of bureaucratic reputation management. The second provides a theoretical elaboration of agency choice of response, and detailed discussion of the derived research hypotheses. The third section describes the selected case. The fourth section reviews data and methods, and the fifth presents the results. The final section concludes and sets an agenda for further research.

SETTING THE SCENE OF BUREAUCRATIC REPUTATION MANAGEMENT

The scholarship on bureaucratic reputation (e.g., Carpenter 2001, 2002, 2004, 2010; Carpenter and Krause 2012; Maor 2007, 2010, 2011, 2013; Maor and Sulitzeanu-Kenan 2013; Moffitt 2010; Moynihan 2012) has emerged as a challenge to the assumption of institutional-choice theory that, in the absence of exogenous political control, bureaucrats will exploit their office in pursuit of their narrow self-interests (Horn 1995; Huber and Shipan 2002; McCubbins and Schwartz 1984; Wood and Waterman 1991). The reputation-centered challenge to institutional-choice theory builds upon an earlier stream of research that proposes that bureaucracies carefully calibrate their response to multiple external signals from their environment in pursuit of maximizing overall support and minimizing negative feedback (Noll 1985; Olson 1995, 1996, 1997). This latter approach suggests that holding budget constrains constant, public agencies are equally responsive to all external signals. In contrast, a reputation-centered perspective suggests that agencies pay uneven attention to external signals given their assessment of the relative threat to the agency's *distinct* reputation (Gilad 2012).

In this article, we define reputation as regarding audiences' association between an organization and distinctive traits (Carpenter 2010; Fombrun 1996, 2012), that is, a unique characteristic that differentiates an organization from other similar entities. Reputation uniqueness, according to Carpenter (2001), refers to the demonstration by agencies that they can create solutions and provide services found nowhere else in the polity. Such distinct reputations are formed in interaction between an agency's strategic crafting of external perceptions, and its multiple audiences' judgments of its operations (Carpenter 2010).

How do agencies manage threats to their reputations? Current studies show that agencies' management of risks to their reputation is embedded in their decision-making processes (Carpenter 2002, 2004; Gilad 2009; Gilad and Yogev 2012; Maor and Sulitzeanu-Kenan 2013; Roberts 2005), in their outputs (Krause and Douglas 2005; Maor 2011), and in their endogenous structure of jurisdiction (Gilad 2008; Maor 2010). For example, Carpenter's (2002) analysis of the Food and Drug Administration (FDA) processing of applications by businesses for drug approval demonstrates this agency's tendency to delay its decisions, and to require multiple testing for potential drug adverse effects, so as to safeguard its reputation as guardian of the public's safety. It is only when the salience of relevant diseases is high, and when the agency faces intense interest-group demand to expedite its decision making, that the FDA is inclined to shorten its time-to-authorization. This case demonstrates the FDA's reputation-driven disregard for demands to speed up drug authorization, unless these are so salient and vigorous that they imperil its autonomy. We will return to this distinction between agencies' concern with their distinct reputation and autonomy below.

Building on the above studies, the focus of this article and its intended contribution relate to agencies' management of threats to their reputations via communication. Although communication is fundamental for agencies' management of threats to their distinct reputation, it has been relatively neglected by the above-mentioned scholarship on bureaucratic reputation. Recently, Maor et al. (2013) have provided a systematic investigation of how agencies' reputational concerns shape their choice between silence and any type of response to external allegations. The current article develops that work to further investigate the logic underlying agencies' content of response; that is, their choice between silence, problem denial, and problem admission.

Moreover, the contribution of this article goes beyond incremental advance of existing work. Its key innovation involves investigation of whether the content of public allegations, in and of itself, impacts upon regulators' perception of the threat to their reputation and their subsequent response. This examination is critical; since finding that agencies are more sensitive to some allegations due to their content strongly confirms the importance of agencies' concerns regarding their distinct reputation as a guide to their management of external signals and holds vast practical implications for our understanding of audiences' discursive resources of influence in the public domain. We now move to develop concrete hypotheses regarding the impact of the content and context of allegations on agencies' communicative response.

MANAGING THREATS TO REPUTATION VIA COMMUNICATION: AGENCY CALCULUS OF RESPONSE

Our analytical framework focuses on the shaping of communication as a reputation-management strategy. It sets out from an assumption that regulators are generally rational and politically conscious organizations that cautiously construct and protect their unique reputations (Carpenter 2001, 2010). They do so because positive reputations "can be used to . . . achieve delegated autonomy and discretion from politicians, to protect the agency from political attack, and to recruit and retain valued employees" (Carpenter 2002: 491). Thus, a positive reputation is a prerequisite for bureaucratic autonomy. Still, under certain conditions (cf. Gormely 1986; Ringquist et al. 2003), even agencies that enjoy positive reputations may face ad hoc political or other external interference. We must therefore make a fine distinction between agencies' management of risks to their distinct reputation versus other threats to their autonomy. Reputation-protection strategies, which are the key focus of this article, pertain to an agency's reaction to allegations and/or incidents that shed a negative light on its fulfillment of its core mission. Other autonomy-management strategies, which are secondary to our interest in this article, regard an agency's reaction to manifold conditions that render political and/or other external intervention more likely.

Next, our classification of regulators' communication strategies in this article borrows from a typology that Christopher Hood and colleagues originally developed to test sequenced patterns in officials' acceptance of blame in response to criticism following serious failures (Hood et al. 2009, 698). Building on this classification we differentiate between three generic forms of response that regulators may adopt. The first is *silence*, that is, nonresponse. The second is *problem denial*, an agency's denial that a harmful event has occurred, its denial of the significance of an alleged harm, or its justification of its (in)actions as desirable in light of public values and interests. The third strategy is *problem admission.* This involves conceding, or not denying, that the current states of affairs, standards or actions are problematic, and either shifting responsibility to others or accepting responsibility.

We suggest that three overarching considerations are likely to shape an agency's content of response, of which the third consideration directly conflicts with the first and the second. First is the agency's interest in mitigating any immediate threat to its distinct reputation and/or autonomy. We propose that the higher the immediate threat to an agency's distinct reputation and/or the greater the risk of political intervention, the more compelling is its need to mitigate these risks by acknowledging a problem and assuming responsibility. This proposition builds on the findings of studies regarding the effectiveness of corporations' impression-management techniques (Elsbach 1994, 2003), which suggest that audiences are more likely to trust an organization that acknowledges its mistakes and credibly commits to change its future actions. Second, an agency may seek to contain further public debate over audiences' claims. Blame shifting, and to a lesser extent denial, are risky strategies inasmuch as they stimulate debate about who should be made responsible and accountable for a problem (Hood 2002; Moynihan 2012). By comparison, silence[1], and even more so, admission of blame and responsibility are more likely to result in closure of debate. Third, the agency will weigh the implications of its response for its long-term operational costs and further risks to its distinct reputation. Admission of responsibility carries vast long-term costs. It creates an expectation that an agency will change its practice and that it will prevent or forgo the recurrence of similar problems. This may involve higher operational costs, as well as intensified allocation of blame to the agency in the event of successive failure (cf. Black 2005, 2006). As a result, agencies may rationally

1 Indeed, it was demonstrated that talk may sometimes be ineffective or even counterproductive (Ben-Nun Bloom and Levitan, 2011).

forgo the short-term benefits of problem and responsibility admission in view of their long-term operational costs and risks to their distinct reputation. Hence, the greater the threat to an agency's distinct reputation and/or to its autonomy, the higher is the likelihood that it will engage in partial admission and blame shifting.

Table 1 summarizes our propositions regarding agencies' multifaceted response calculus. The following testable hypotheses, regarding the impact of the content and context of public allegations upon agencies' choice of response, build on this analysis.

Starting from the content of allegations, the primary focus of this article is on agency reaction to claims of overregulation versus underregulation in light of their differential ramifications for regulatory reputations. By "over-regulation" we mean audiences' claims that regulatory standards, inspection, or enforcement impose an excessive burden on the field under regulatory jurisdiction. By contrast, allegations of "under-regulation" proclaim that regulatory standards, or their enforcement, are overly lenient, and fail to adequately protect the public interest. They may further involve claims that regulators are captured by powerful businesses.

The focus on claims of overregulation and underregulation is both theoretically and practically important given the plasticity of these concepts and their multifaceted character. This plasticity entails that audiences may be able to strategically frame their grievances in terms of overregulation versus underregulation in order to enhance their influence over regulatory policy. For instance, pensioners' low returns on their pensions can be framed as a consequence of regulators' underregulation of the fee structure of financial products. Alternatively, it might be claimed that overburdening and superfluous regulatory requirements give rise to financial firms' deduction of high fees from pensioners' funds. Similarly, a bank collapse may be framed as a consequence of overly permissive capital adequacy provisos, or as a result of rigid and prescriptive rules that fail to acknowledge the diversity of corporate risks.

Table 1
Agency Calculus of Response

	Agency Content of Response			
			Problem Admission	
Calculation Criteria	Nonresponse	Problem Denial	Blame Shifting	Full Admission
Mitigation of immediate threat to reputation and/or political intervention	Zero	Low	Medium	High
Risk of stimulating further debate and controversy	Low	Medium	High	Low
Shaping expectations regarding future practice and responsibly	No message regarding future practice	Message that the agency will not change its current practice	Message that the agency will not change its current practice	Message that the agency will change its current practice

We tentatively argue that, all else being equal, claims of underregulation are more threatening to regulators' reputations compared with claims of overregulation. First, arguments of underregulation are directly targeted at the agency's fulfillment of its core function of protecting a specific public value. Namely, they directly challenge the agency's claim for a distinct contribution to the public good (i.e., the agency's unique reputation). By comparison, allegations of overregulation concern the negative externalities of regulation. Second, in certain domains, the harm of overregulation is visible and salient only to concentrated groups (regulated business), whereas underregulation has greater resonance with the public at large. Third, allegations of underregulation tend to go hand in hand with claims that regulators are in the hands of large businesses, whereas claims of overregulation may be interpreted by the general public as an indication of regulatory independence and courage.

Inasmuch as claims of underregulation inflict a greater threat to an agency's reputation, our above propositions regarding the agency's calculus of response suggest that the most effective way to mitigate this threat is to acknowledge that regulation should be extended, strengthened and enhanced. Yet the long-term operational and/or reputational costs of admission of responsibility over additional regulatory tasks may be too high. Thus, we hypothesize that[2]—

> H1a: When facing claims of underregulation, a regulator will be relatively inclined to admit a problem, yet attempt to shift responsibility to others as far as possible.

This hypothesis can be elucidated by reference to the following examples from our data set of media reporting of opinions regarding the Israeli regulator of banks. The first example (Pilot 2008, case #3492) regards this regulator's enactment of a new policy that involved regulatory standardization of the *type* of fees that banks are allowed to levy and its publication and comparison of bank-fee rates. The regulator endorsed this policy over prescription of the level of bank fees. Members of the Israeli parliament and consumer representatives criticized the regulator, asserting that the new policy paradoxically enabled banks to further increase their already excessive fees. The head of the banking regulator, in response, admitted that some banks have abused the reform and have used it as an opportunity to increase their fees. However, he suggested that it was too early to fully assess the success or failure of the reform and stated that if banks did not positively react to the transparency measures, the agency would intensify its regulatory intervention. Thus, the regulator did not challenge the claim that bank fees were too high, and admitted that its intervention has not been fully effective, yet attempted to shift blame to others (firms) and sought to put off suggestions to escalate its intervention.

A second illustration (Levin 2006, case #2849) regards demands by the Institute of Certified Public Accountants in Israel that the banking regulator set a ceiling on

2 H1a posits our basic hypothesis regarding a reputation-focused response to claims of underregulation. A more nuanced version of this hypothesis would involve discerning other endogenous factors that render the threat to an agency's reputation more or less acute. For example, we expect claims of underregulation to pose a higher threat to an agency's distinct reputation when audiences criticize its execution of core functions as opposed to peripheral tasks. Moreover, an agency's idiosyncratic reputation may lead its officials to give greater prominence to some of its core functions over others, and to therefore be more inclined to admit a problem concerning the former in comparison with the latter.

the interest rates that banks levied on client overdrafts. The association claimed that banks levy differential interest rates *within* clients' agreed credit limits. The association required the regulator to issue a prohibition on setting such differential interest rates by banks and further suggested that the regulator was collaborating with the banks against customers' interests. The head of the banking regulator said in response that the agency did not have the authority to intervene in banks' interest rates and that clients should individually negotiate with their banks. Hence, the regulator did not deny that use of differential interest rates within clients' credit limits by banks is problematic. Rather, it distanced itself from the issue and shifted responsibility for dealing with the problem to firms and their clients.

What would be the regulatory response to claims of overregulation? Since claims of overregulation arguably impose a lower threat to an agency's reputation, we expect an agency to be under less pressure to acknowledge a problem. Moreover, acknowledging a claim of overregulation creates an expectation that the agency will in fact adapt its standards to businesses' needs or lower the intensity of its supervision (e.g., reducing the mandatory level of capital reserves). Yet doing so may exacerbate an agency's future reputational costs in the event of successive failure (e.g., a bank collapse). Consequently, we expect an agency to directly challenge allegations of overregulation, and either claim that the alleged harm is insignificant or positively assert that its actions are desirable and beneficial in light of the public interest. Hence, we hypothesize that—

H1b: When facing claims of excessive regulation a regulator will be relatively inclined to deny a problem.

The following examples from our data set illustrate this strategy. The first illustration (Globes 1999, case #255) regards a case in which the regulator denied the problem without offering a justification for its actions. In this instance, Bank Hapoalim disputed the banking regulator's requirement that banks hold a higher ratio of capital reserves against their provision of credit outside Israel. This provision constrained Hapoalim's plans to expand its international operations. In the course of a business conference, Hapoalim's chief executive officer criticized the regulator, arguing that "research suggests that excessive regulation and rigid rules only exacerbate risks to bank financial stability . . . ." He further argued that excessive regulation entails high costs, which are ultimately paid by bank customers. The head of the banking regulator told the reporter in response: "It is only natural that there are conflicting views; I have no problem with that. The restrictions on banks' operations abroad are not new. Bank Hapoalim now faces an obstacle, which is why they are moaning."

The second illustration (Teitelbaum 2001, case #768) involves the regulator's denial of the problem, coupled with a justification. In this case, banks blamed the banking regulator's directive that they allocate capital reserves against bad debts for their poor financial performance. They further claimed that the regulator's provisions would force them to increase their fees and interest rates to the detriment of their clients. The regulator responded that "the aim of the [regulatory] provision is to protect banks' financial stability in light of rising credit risk, economic stagnation and the difficulties that a number of industries face as a result of national security threats and the global crisis in the high-tech sectors. These high credit risks have not been adequately reflected in banks' allocation of capital reserves."

The focus, and intended theoretical contribution, of this article is on the aforementioned consequences of allegation content for agencies' management of their distinct reputation via communication. Nonetheless, we expect the conditions that render more or less likely an agency's risk for political intervention to further shape the content of agencies' response. We therefore theorize the effect of the following three factors. First, the objective severity of an issue, and even more so, the visible indications of material damage, increase the likelihood of political intervention on behalf of those who see themselves as victims of either excessive or overly lenient regulation. In addition, the serious outcomes of some events heighten the threat to agency reputation. Under these conditions denial is not a politically viable option and the agency's choice of response is effectively limited to either full admission or blame shifting. Still, in light of the implications of full admission for an agency's future operational and reputational costs, our second hypothesis suggests as follows:

> H2: When the event underlying public allegations regards an incident with publicly visible severe outcomes, an agency will be inclined to admit a problem yet shift blame to others insofar as possible.

Second, the salience of issues and agencies is a known predictor of political intervention (Eisner et al. 1996; Gormely 1986; Ringquist 1995; Ringquist et al. 2003).[3] Moreover, although intense media coverage may involve both negative and positive news, we expect that more public and political attention will be paid to the negative information (Hood 2011; Weaver 1986; Kahneman and Tversky 1979), thereby harming the agency's reputation. Consequently, we expect intense media coverage to render agencies more inclined to admit a problem so as to mitigate harm to their reputations and to buffer coercive political intervention. Hence, we hypothesize that—

> H3: Under high-level salience, an agency will be inclined to admit a problem.

Last, we expect that the relative threat that a regulatory agency experiences is either attenuated or augmented by its understanding of its "reputation reserves," namely, its established positive or negative reputation. This expectation underlies Carpenter (2001, 2002, 2010) and others' assertion that a positive reputation is an asset that protects an agency from political attack on its autonomy. Maor et al. (2013) similarly suggest that an agency is more likely to remain silent when facing allegations regarding functional areas for which it enjoys a stable and positive reputation. We therefore expect an agency to either remain silent or deny allegations about functional areas in which it enjoys a long-standing positive reputation, and to admit a problem when facing allegations about domains in which its reputation is already poor. Thus, we hypothesize:

> H4: When facing allegations regarding a functional area for which its reputation is poor, a regulator will be more likely to admit a problem.

In summary, we expect an agency to be relatively inclined to admit problems when audiences allege that regulation is overly lenient (H_{1a}), when there are publicly

3 These authors further suggest that the effect of salience on politicians' inclination to exercise control over the bureaucracy is tempered by complexity.

visible indications of severe consequences of either overregulation or underregulation (H_2), when the issue or the agency is politically salient (H_3), and when allegations are directed at a domain in which the agency's reputation is already negative (H_4). We expect each of these factors, given their distinct theoretical underpinnings, to independently influence the agency's content of response. We now turn to describing the Israeli Supervisor of Banks and its distinct reputation.

ISRAELI BANKING SUPERVISION DEPARTMENT AND ITS DISTINCT REPUTATION

Our empirical analysis focuses on the Israeli regulator of banks—the Banking Supervision Department (hereafter: the BSD) − a statutory unit, located within the Bank of Israel, which is an independent central bank. The Supervisor of Banks, who heads the BSD, is appointed by the Governor of the Bank of Israel (Banking Ordinance 1941, clause 5). Operating alongside the BSD are three other financial-market regulators in Israel: the Supervisor of Capital Markets, Savings and Insurance, the Securities Authority, and the Antitrust Authority (which is entrusted with the promotion of competition in the economy). The BSD's mandate is based on several laws,[4] and on its self-definition of its role in its annual reports (Ben-Bassat 2007, 24). These roles include the maintenance of the banking system's financial stability (i.e., prudential regulation), consumer protection, and promotion of competition.

Compared with other regulators in Israel, the BSD enjoys a position and reputation as an independent and resourceful regulator. It has a high degree of independence vis-à-vis the central government and its political executives. In terms of material resources, it is ranked second (after the Securities Authority) with respect to its relative wealth (Ben-Bassat 2007, 43). Moreover, the BSD benefits from the Bank of Israel's "pivotal position in the political-economic field and within the [Israeli] state's apparatus [. . .] as an apolitical agency with the authoritative voice of expertise in economic matters, an expertise which is based on consensual scientific knowledge whose veracity is taken for granted" (Maman and Rosenhek 2011, 2).

Being institutionally located at the local-global interface, the Bank has been able to instill confidence in the soundness of the Israeli financial system. The fact that the Israeli economy emerged relatively unscathed from the global financial crisis (Budina et al. 2011) reinforced the strong reputation for maintaining bank stability that the Bank of Israel and its Banking Supervision Department already enjoyed.

However, the BSD's reputation for maintaining the stability of banks has been attained at the expense of its reputation for the performance of other tasks. Some of the BSD's key audiences perceive of its focus on prudential regulation as valuable per se, yet detrimental to and rivaling its performance in other domains. Leading Israeli economists criticize the BSD for failing to promote competition in the highly concentrated Israeli banking sector. They condemn it for encouraging mergers between small

4 The Banking Ordinance, 1941; the Banking (Licensing) Law, 1981; the Banking (Services to Consumers) Law, 1981; the Bank of Israel Law, 1954, Cheques without Cover Law, 1981, and the Law for Encouragement of Competition and Reduction of Conflicts of Interest in the Israeli Capital Markets, 2005.

and large banks in order to increase the stability of the banking system at the expense of interbank competition (Ben-Bassat 2007: 114; Knot 1986; Yosha, Blei, and Yafeh 2007). However, this criticism presents only a moderate threat to the BSD's reputation since promotion of competition is primarily entrusted to the Antitrust Authority (cf. Maor et al. 2013).

A greater threat to the BSD's reputation comes from its perceived deliberate underregulation, and poor performance in the domain of consumer protection. The Israeli Consumer Council, politicians, and journalists all tend to be critical of the BSD's performance in this domain. For example, the recommendations of a working party nominated by the Knesset's Economic Affairs Committee published in 2004 suggested that "[t]he Supervisor of Banks is responsible for goals that are not necessarily complementary. On the one hand, ensuring the financial stability of the banking system, which depends . . . on banks' profitability and prices. On the other hand, the Supervisor should protect and promote consumer interests . . . Experience suggests that this duality of goals is detrimental for consumers" (Avrami et al. 2004, 4). A subsequent parliamentary enquiry (2007) asserted: "in the last few decades the Supervisor has given excessive weight to the [financial] stability interest, whereas the consumer interest has received partial attention" (Knesset 2007, 12). Both Knesset reports recommended that the BSD's consumer protection function be reassigned, either to another independent unit within the Bank of Israel, or to a new regulatory agency. It is difficult to think of a stronger manifestation of the BSD's poor reputation for consumer protection, and the threat that this poses for its delegated autonomy, than these declarations by its overseeing Knesset committee. Consequently, our hypothesis 4 predicts that the BSD will be relatively inclined to admit allegations concerning consumer protection (wherein its reputation is weak) and to either remain silent or deny claims concerning prudential regulation.

DATA AND METHODS

To test the above hypotheses, we constructed a database of opinions regarding the Banking Supervision Department. The aim of our database construction strategy was to produce a comprehensive list of opinions. To do so, we collated *all* the articles mentioning the BSD, either in the title or body of the article, that were published in *Globes*—Israel's only business dedicated broadsheet—between November 1996 and 2012 (a total of 5,216 articles). This media outlet was a critical agenda-setter for other media during the period under consideration. The second author and a research assistant read through the whole article population and selected *all* articles involving opinions—whether positive or negative—about the BSD and its performance. Opinions were either those made by a source during an interview, or reports by journalists of an actor's opinion made elsewhere (e.g., a Knesset committee, a public report, a conference, etc.). Our assessment of what makes "an opinion" in contrast with "a description" intentionally favored inclusion over exclusion of articles. This process resulted in a database of 674 articles involving one or more opinions, rather than mere descriptions of facts or events. At a later stage, while coding each article, we created a separate row for each opinion source or opinion matter, so that our final database includes 806 opinions or rows.

Each article was coded by a research assistant under close supervision of the first author (who also coded 89% of the articles and 100% of those articles that the research assistant coded as involving BSD response). In unclear cases, the first author consulted with the second author and together they reached a decision. Finally, we asked a different research assistant, who had not been previously involved with the project, to independently code a sample of the data (n = 118).[5]

Dependent Variable

The dependent variable is a categorical variable indicating the *content of the BSD's response* to opinions about its performance. We coded the content of BSD response, as reported in the media, either directly to journalists' queries or in response to audience opinions in a different venue (e.g., BSD's response to a Member of the Knesset during hearings at Knesset committees). Following Hood et al. (2009), we coded three types of responses: (i) no response—inasmuch as there was no BSD response to the opinion/allegation in the same article[6] (n = 652, 80.9%); (ii) problem denial—inasmuch as the BSD denied that a harmful event had occurred, and/or if it claimed that its (in)actions enhanced the public interest[7] (n = 104, 12.9%); (iii) problem admission, of which most cases involved admission and blame shifting, when the BSD acknowledged that a harmful event had occurred, yet shifted responsibility and blame to others[8] (n = 36, 4.5%), and a few of the cases involved admission of problem and acceptance of blame[9]

5 The inter-coder reliability statistic (Krippendorf-Alpha) was above .7 for all relevant variables (ranging between .714 and .735), other than for our coding of the "regulatory functional area" where the reliability score was lower than warranted (α = .44). We think that the latter is a reflection of the fact that the coding of this specific variable requires some expertise in financial regulation. Consequently, the second author, who specializes in financial regulation, verified 100% of the coding for this specific variable.

6 Our coding does not account for the possibility that the Supervisor response was reported in a different article or during the days following the original publication of an opinion. We have explored the frequency of such delayed response, during three days following an opinion, for a random sample (10%) of the Supervisor's nonresponses to negative opinions. We find, for this 10% sample, that in 13.5% of cases the Supervisor has responded during the three days following the original article. Although this rate of delayed responses is not insignificant, we have decided that it is not sufficiently large to justify exploring the possibility of delayed response for all of our cases. Moreover, it is noteworthy that rather than explicitly reporting a "delayed response," journalists typically reiterate the original opinion and a response to it. Thus, delayed responses are not very frequent, and they are incorporated into our data set as independent responses to subsequent reporting of an opinion.

7 This category includes any of the following: full denial of the event or harm done, denial of the seriousness of the event or harm, claim that the action taken (or inaction) is fully justified and necessary given the public interest, professional considerations and/or international best practice.

8 This category includes any case wherein the BSD acknowledges that the public interest has been harmed yet suggests that force majeure or someone else is to be blamed for this bad outcome.

9 This category involves cases wherein the BSD acknowledges that the public interest has been harmed and either assumes full responsibility (e.g., declaring the agency head's resignation, the initiation of an internal enquiry or agency implementation of remedial action) or offers excuses and explanations to partially reduce the level of blame.

(n = 14, 1.7%).[10] As evident from this distribution, silence was the BSD's predominant response, and problem denial was more frequent than problem admission.

Independent Variables

Our analysis focuses on the effects of three key factors: the content of allegations (the level of regulation: under- versus overregulation), the context of allegations (salience and severity) and regulatory reputation reserves.

Level of Regulation

Each opinion was coded to reflect the source's opinion that regulatory standards and/or their enforcement were (i) overly lenient (n = 220, 27%), (ii) excessive (n = 225, 28%), or otherwise (iii) adequate (n = 201, 25%), mixed (n = 54, 7%), or irrelevant (n = 107, 13%).

Media Salience of the Banking Supervision Department

For each article, we computed the number of all *other* articles that were published about the BSD during the relevant month. These figures were drawn from our larger database of 5,216 *Globes* articles mentioning the BSD. We coded this variable as a five-point scale and standardized it to vary between 0 and 1.

Severity of the Incidents Underlying the Allegation

To test the impact of severity, or more precisely of publicly visible indications of severe consequences, we constructed three independent indicators. All three indicators are related to major controversies regarding the adequacy and consequences of the BSD's regulation. First, a binary measure of all incidents in which a bank collapsed ("1" = opinions regarding incidents of bank collapse; and "0" = all other allegations).[11] Bank collapses are a good proxy for severity given their direct impact on shareholders and bank clients and their indirect impact on investors' confidence in the banking system. Of the 806 articles in our data set, 68 pertain to incidents of bank collapse. Our second indicator of severity is a monthly standardized index of the average level of bank current-account fees.[12] Household outlays on bank fees have

10 We were compelled to integrate the two types of responses into one category of "problem admission." because there are very few cases of problem and responsibility admission (n = 14). See robust analysis in the results section for more on the effect of changing this specification. In addition, within this third category of "problem admission" are 10 cases of mixed responses, which involved some denial alongside blame shifting and/or acceptance of blame. In the robust analysis we test for the possible distortion of including this group of cases on our findings

11 Two banks collapsed during the research period. One of them − the Commercial Bank—collapsed as a consequence of fraudulent behavior by a bank employee. The second bank—the Industrial Development bank—collapsed due to a high rate of bad debt resulting from its imprudent credit-allocation policy and consequent bank run.

12 Measure included in the Israeli Central Bureau of Statistics' monthly Consumer Price Index, available at http://www.cbs.gov.il/reader/?MIval=/prices_db/PriceData_MultiSelect.html&Subjects=40&DataType=Ind&Radio1=1_3&MainDivision=a&SubDivision=4; accessed February 25, 2013.

been a recurrent cause of customer and political dissatisfaction with banks and with the BSD's regulation. Thus, an increase in the bank-fee index would indicate a more severe burden on households, thereby suggesting inadequate consumer-protection regulation. A third indicator of severity regards construction of new flats, measured in terms of the number of flats in early-stage construction projects.[13] In the Israeli context, the soaring cost and limited availability of housing is an ongoing political item, and the BSD's prudential regulations have often been blamed for curbing finance for the construction and supply of new homes. Consequently, a decrease in the number of flats under construction would indicate that the BSD's regulation of banks is inflicting severe restrictions on the housing market.

Agency Reputation Reserves

As detailed in the previous section, the BSD is known to have a strong and positive reputation for prudential regulation and a weaker reputation for delivering consumer protection. In addition to these areas with regard to which the BSD has an established (good or bad) reputation, other types of issues/functions appeared in our media-content analysis. Consequently, we coded each opinion as relating to one of the following functional areas: (i) prudential: opinions regarding the BSD's capital adequacy requirements and its supervision of bank financial stability (n = 263); (ii) consumer protection: opinions regarding the BSD regulation of bank services and sales to retail customers and investors (n = 211); (iii) other regulatory functions that include competition: opinions regarding the BSD's regulation of competition among banks, and between the banking sector and other financial institutions (n = 62); fraud: opinions regarding the BSD's regulation of bank employees' alleged fraudulent behavior (n = 53); internal governance and control: opinions regarding the BSD's regulation of bank internal controls and ownership structure (n = 104); and opinions regarding "other," as well as indistinct, regulatory functions or actions (n = 113).

Control Variables

In addition to the above key independent variables, we control for: (1) *the direction of the source's judgment*, differentiating between negative and positive/mixed opinions; (2) the *year* in which the article was published (1996 to 2012);[14] (3) *the overall tone* of the article, differentiating between negative and positive opinions; and (4) the *venue of the opinion*, allowing a test for the extent to which the content of the BSD's response is shaped by the venue in which the source's opinion was conveyed. The latter was constructed of nine categories: (i) opinions that were clearly made during an interview with the source (structured as a series of questions and responses) or an official press

13 This measure is available from the Israeli Central Bureau of Statistics at http://www.cbs.gov.il/ts/ID52c9811b4f0e7d/databank/building_func.html?level_1=15; accessed on February 25, 2013.

14 The coefficients for years are available from the authors.

conference (*n* = *133*); (ii) opinions by journalists themselves (*n* = *293*); (iii) Knesset proceedings (*n* = 75); (iv) court proceedings (*n* = 31); (v) formal correspondence with the BSD (*n* = 25); (vi) governmental or semi-governmental reports (*n* = 16); (vii) conferences (*n* = 55); (viii) miscellaneous ad hoc (*n* = 34); or (ix) verbatim quotes of sources, where we could not code with full confidence whether or not these were made in the course of an interview because the quotes were not structured as a sequence of questions and responses (*n* = *145*).

Summary statistics are presented in table 2.

RESULTS

When do regulators choose to publicly deny a problem, admit a problem, or altogether refrain from responding to audience judgments? In order to consider these alternatives simultaneously and explicitly model them, we employ multinomial logistic regression—an extension of logistic regression for polytomous outcome variables. For a dependent variable with J categories, the model sets one of the possible values of the response variable as a reference point and compares the probability of membership in other categories to the probability of membership in the reference category by calculating J-1 equations, one for each category relative to the baseline. We start by setting "no response" as the reference point. Table 3 presents the unstandardized coefficients from the multinomial model examining the effects of level of regulation, agency salience, issue severity, reputation reserves across regulatory functions, negativity of source judgment, and opinion venue on the probability for problem denial relative to no response (Contrast A) and the probability for problem admission relative to no response (Contrast B), controlling for the year the article was published. In addition, we were also interested in examining the probability for problem admission relative to problem denial. To that end, we reran the multinomial model, setting the reference category to problem denial. This yielded two contrasts: no response relative to problem denial (redundant with Contrast A in Model I and thus not presented in the table), and problem admission relative to problem denial (Contrast C in table 3). Since the models are nonlinear, coefficients do not easily lend themselves to substantive interpretation. Therefore, we exponentiated the coefficients for the purpose of presentation, converting them to relative risk ratios, and we present the results alongside the log-odds in table 3. The relative risk describes the ratio of the odds for the outcome occurring before and after the change in a specific predictor, holding all other variables constant (Long 1997).

We find strong support for our first hypothesis. In line with H_{1a}, we find that, when facing claims of underregulation (compared with claims that the level of regulation is adequate or mixed claims), the odds of admitting the problem relative to not responding increase by a factor of about four, and the odds of admitting the problem relative to denying it increase by a factor of about three, both of these changes being statistically significant (with the latter significant in a directional—that is, one-tailed—test). Furthermore, and in accord with our expectation (H_{1b}), results show that odds

Table 2
Descriptive Statistics

Variable	Freq. (x = 1)	Mean	SD	Min	Max
I. Level of regulation					
Underregulation	27.26%	0.273	0.446	0	1
Adequate or mixed regulation/irrelevant	44.86%	0.449	0.498	0	1
Excessive regulation	27.88%	0.279	0.449	0	1
II. Severity					
Bank collapse	8.43%	0.084	0.278	0	1
Construction (standardized)	—	7092.222	1235.569	5379.0	10295.0
Bank fees (standardized)	—	130.115	18.113	84.105	155.331
III. Salience	—	0.519	0.353	0	1
IV. Regulatory function					
Prudential	32.59%	0.326	0.469	0	1
Consumer protection	26.15%	0.261	0.440	0	1
Other	41.26%	0.413	0.493	0	1
V. Negative source perspective	63.94%	0.639	0.480	0	1
VI. Overall tone	65.43%	0.654	0.476	0	1
VII. Opinion venue					
Interview or press conference	16.48%	0.165	0.371	0	1
Journalist opinion	36.31%	0.363	0.481	0	1
Knesset proceedings	9.29%	0.093	0.291	0	1
Court proceedings	3.84%	0.038	0.192	0	1
Formal correspondence or meeting with regulator	3.10%	0.031	0.173	0	1
Governmental or semi-governmental reports	1.98%	0.020	0.139	0	1
Conference	6.82%	0.068	0.252	0	1
Distinct other	17.97%	0.180	0.384	0	1
Indistinct other	4.21%	0.042	0.201	0	1

Note: Table entries are means, standard deviations, ranges, and the frequency of 1 for binary variables (not presented for continuous variables).

Table 3
Multinomial Logistic Regression of the Supervisor's Content of Response, Log-Odds and Relative Risk Ratios

	Problem Denial versus No Response		Problem Admission versus No Response		Problem Admission versus Denial	
I. Level of regulation (ref = adequate or mixed)						
Underregulation	0.417 (0.387)	1.517	1.327 (0.534)**	3.769	1.076 (0.632)*	2.933
Excessive regulation	0.871 (0.442)**	2.389	.668 (0.635)	1.950	0.127 (0.731)	1.135
II. Severity						
Bank collapse	−0.185 (0.685)	0.831	1.163 (0.632)*	3.199	1.364 (0.852)	3.910
Construction (standardized)	0.001 (0.000)**	1.001	0.000 (0.000)	1.000	0.000 (.000)	1.000
Bank fees (standardized)	−0.025 (0.044)	0.975	0.191 (0.065)***	1.211	0.231 (0.084)***	1.260
III. Salience	0.379 (0.487)	1.461	0.487 (0.772)	1.628	−0.128 (0.887)	0.879
IV. Regulatory function (ref = Prudential)						
Consumer protection	0.706 (.357)**	2.027	1.743 (.610)***	5.712	1.100 (.609)*	3.003
Other	0.191 (.304)	1.211	0.955 (.496)*	2.599	1.684 (.589)***	5.387
V. Negative source perspective	1.162 (0.527)**	3.195	−0.688 (0.536)	0.503	−1.913 (0.730)***	0.148
VI. Overall tone	−0.250 (.368)	0.779	0.717 (.645)	2.047	0.788 (.684)	2.200
VII. Opinion venue (ref = interview or press conference)						
Journalist opinion	−0.470 (0.463)	0.625	−0.666 (0.565)	0.514	0.051 (0.739)	1.053
Knesset proceedings	1.674 (.473)***	5.335	1.358 (0.599)**	3.889	−0.055 (0.726)	0.946
Court proceedings	−0.515 (.722)	0.598	−0.199 (0.869)	0.819	0.428 (1.125)	1.535
Formal correspondence or meeting with regulator	1.640 (.594)***	5.154	1.328 (0.967)	3.774	−0.164 (1.129)	0.848
Governmental or semi-governmental reports	0.792 (.685)	2.208	−0.450 (1.225)	0.638	−0.782 (1.271)	0.458
Conference	0.398 (.540)	1.489	−0.635 (1.059)	0.530	−0.922 (1.182)	0.398
Distinct other	0.674 (.424)	1.963	0.616 (.549)	1.851	0.140 (0.690)	1.151
Indistinct other	0.381 (.689)	1.464	−15.472 (.619)***	0.000	−15.023 (.903)***	0.000
Constant	−4.708 (6.864)	—	−34.151 (10.605)***	—	−31.885 (13.308)**	—
N			799		799	
Log likelihood			−358.990		−358.990	
Wald Chi-square			$\chi^2(68) = 9820.04$***		$\chi^2(68) = 10009.54$***	
Pseudo R2			25.99%		25.99%	

Note: Table entries are unstandardized multinomial logistic estimates, with robust standard errors in parenthesis, and exponentiated multinomial logistic estimates; Fixed effects for years are included, but not presented, in the models.
***$p < .01$; **$p < .05$; *$p < .1$, two tail.

of denial (versus no response) increase by a factor of about 2.4 when the regulator was accused of excessive regulation.[15]

As posited in H_2, the severity of the event or circumstances underlying the allegation was generally found to increase the probability of publicly admitting a problem relative to keeping silent. Ceteris paribus, when allegations refer to an incident of a bank collapse, the odds for admission versus no response increase by a factor of 3.2 for severe events. Similarly, an increase in bank fees raises the probability of admitting a problem relative to either denying it or not responding. Thus, the odds for admitting versus denying a problem increase by a factor of about 1.3 and the odds for admission versus no response increase by a factor of about 1.2 for every increase of one unit in the standardized scale of bank fees. In addition, the regulator was found to be more inclined to deny a problem rather than remain silent with an increase in the construction of new flats, which indicates that its regulations are not inhibiting the housing market. But we did not find a similar inclination to admit a problem with a decrease in the number of new flats.

Next, although it was hypothesized that the agency would be more inclined to admit a problem rather than either deny or remain silent under high media coverage compared with low salience (H_3), the corresponding coefficient falls short of statistical significance. In addition, media coverage intensity also does not significantly affect the probability for denial versus silence. In our robust analysis below we continue to explore this unexpected finding.

We now turn to test for the effect of the strength of the BSD's reputation reserves across functional areas on its choice of response. In general accord with H_4, we find that the Supervisor was more inclined to respond to problems regarding its performance of consumer protection (where its reputation was relatively weak) when compared with prudential regulation (regarding which it enjoyed a stronger and more positive reputation), by either admitting or denying the problem in comparison with keeping silent. The odds for admission versus no response regarding consumer protection (as opposed to prudential regulation) are approximately six times higher, and the odds for denial relative to no response are expected to increase by a factor of approximately two, holding all else constant. Further, facing accusations regarding the Supervisor's performance in issues of consumer protection increases the odds for admitting versus denying a problem by a factor of about three. In other words, there is a greater probability that the regulator will either deny or admit allegations in relation

15 The logic underlying our main argument would suggest that an agency's differential response to claims of under- versus overregulation will be more pronounced with regard to its core functions, wherein it faces threat to its distinct reputation. By comparison, the agency's inclination to respond to allegations in other domains may be better explained by contextual, ad hoc, factors, such as salience and severity. To explore this intuition we compared the effects of the type of claims (under- versus over- regulation) when concerning the BSD's core functional areas (prudential regulation and consumer protection) with their effects when targeted at other functional areas. We reran the models when carving up the sample into two groups (0 = core functions, 1 = other functions). Our analysis suggests that admitting a problem, relative to not responding, increases when facing claims of underregulation in relation to core functional areas, compared with claims of adequate or mixed regulation, and this effect is statistically significant, whereas this effect did not emerge at any acceptable level of statistical significance under other, noncore, functions. By comparison, our hypothesis $H_{1b,}$ according to which an agency is likely to deny claims of overregulation, cannot be supported at any acceptable level of statistical significance when carving up the sample, either under core or other functional areas. The full results are available from the authors.

to consumer-protection issues than ignore them, with the probability of admission being greater than the probability of denial. Results further indicate that the regulator would prefer to admit a problem rather than keeping silent when responding to opinions regarding issues about which it lacked an established reputation (whether positive or negative). In addition, the probability of admission is significantly different than the probability for denial, as suggested by the significant coefficient for "other regulatory functions" versus prudential on the third column.

We now move to the control variables in the model. Starting with the effect of the direction of the source's judgment, we find that a source's negative perspective significantly increases the odds of problem denial by the regulator both relative to keeping silent (by a factor of 3.2) and relative to problem admission (by a factor of 6.757, i.e. 1/0.148)[16] with all other variables held constant. Still, when holding constant the direction of the source's judgment, as well as the type of regulatory function and all other variables in the model, the overall tone of the article shows no significant effect on the regulator's response type.

The model also controls for the venue in which the source's opinion was conveyed. In that vein, we specified controls for eight possible venues, with the baseline being an opinion presented in an interview or a press conference. Findings show that the Supervisor was inclined to respond to opinions made during parliamentary Knesset proceedings as compared with the baseline of interview or press conference, by either denying or admitting the problem, with no significant difference between the odds of one type of response over another, and to deny problems in one-to-one correspondence.[17]

Examining the lower and upper extremes of the predictors indicates that predicted probabilities for problem denial range from .001 (for a positive and low in salience article alleging that the level of regulation is adequate, regarding a prudential and severe issue—when a bank has collapsed, home construction is at its minimum and bank fees at their maximum—raised in the course of a court proceeding) to .804 (for a salient and negative article alleging excessive regulation regarding a consumer protection issue, expressed in one-to-one correspondence, when objective severity is low inasmuch as no bank has collapsed, home construction is at its maximum and bank fees at their minimum). By comparison, predicted probabilities for problem admission range from .000 (for a negative and low in salience allegation, conveyed at an indistinct venue, suggesting that the level of regulation is adequate, regarding a prudential and nonsevere issue, when no bank has collapsed and both home construction and bank fees are at their minimum) to .962 (for a salient and positive article, when the source is alleging that regulation is overly lenient, regarding a consumer protection issue, expressed in the course of a Knesset proceeding, when severity is high inasmuch as a bank has collapsed, and bank fees are at their maximum, whereas the problem of home supply is not severe insofar as the construction of new homes is at its maximum).

16 Results show that a source's negative perspective decreases the odds of admission versus denial by a factor of 0.148. Since odds ratio is a multiplicative term, magnitudes of positive and negative effects should be compared by taking the inverse of the effect smaller than 1, yielding a factor of 6.757 (1/0.148).

17 We also find a tendency to admit versus deny the problem or ignore it in other "indistinct" venues.

Robust Analysis

Goodness of Fit and Diagnostics

Our main model, as presented in table 3, seems to fit the data well. Both the Wald test ($\chi^2(68) = 9{,}820.04$, $p < .001$ for Model I including Contrasts A and B; $\chi^2(68) = 10{,}009.54$, $p < .001$ for Model II including Contrast C) and the pseudo R-square ($R^2_{\text{pseudo}} = 25.99\%$, $p < .001$) are statistically significant, showing that the model fits the data better than the intercept-only model.

Next, we were interested in investigating the extent to which the model assumptions hold. We started by testing the Independence of Irrelevant Alternatives (IIA) assumption, suggesting that odds of one outcome versus another are independent of other alternatives, such that adding or deleting alternative outcome categories does not affect the odds among the remaining outcomes. The Hausman test of the IIA assumption confirms that is it not violated in the analysis. The test yields insignificant results, and thus, does not allow rejection of the null hypothesis of independence of irrelevant alternatives at any acceptable significance level ($\chi^2(5) = 0.000$, p = n.s.; $\chi^2(33) = 2.200$, p = n.s., see Long and Freese 2005).

A postestimation likelihood ratio (LR) test for combining alternatives suggests that no categories (of the response variable) should be combined; that is, that the three outcomes—silence, problem denial and problem admission—are distinguishable with respect to the variables in the model. Thus, we were able to reject the null stating that alternatives could be collapsed for all three possible contrasts (problem denial versus no response: $\chi^2(34) = 136.850$, $p = .000$; problem admission versus no response: $\chi^2(34) = 124.343$, $p = .000$; problem denial versus problem admission: $\chi^2(34) = 86.402$, $p = .000$, see Long and Freese 2005).

Finally, we tested the robustness of our results to a change in the specification of the dependent variable. First, the category of "problem admission" in our models includes mostly cases where the BSD acknowledges that a harmful event has occurred, yet shifts responsibility and blame to others or to force majeure, and 14 cases of full admission, in which the BSD acknowledges that the public interest has been harmed and either assumes full responsibility (e.g., declaring the agency head's resignation, the initiation of an internal enquiry or agency implementation of remedial action) or offers excuses and explanations to partially reduce the level of blame. To test the validity of pooling over these two categories, we reestimated the model for four possible responses, separating "blame shifting" from "full admission," followed by a post estimation LR test for combining alternatives. The full results of this test are presented in table 4. Lending support to our initial specification, the test suggests that no categories of the response variable should be combined, except for "blame shifting" and "full admission," as specified above. For these latter categories, the null stating that alternatives can be collapsed cannot be rejected ($\chi^2(19) = 23.618$, $p = .211$). Second, the "problem admission" category included numerous cases of mixed responses, which involved some denial alongside blame shifting and/or acceptance of blame ($n = 10$). We tested the robustness of our key findings by rerunning our model when omitting these cases. Results show that the key estimates did not exhibit substantive change due to this altered specification. Thus, we find that the odds of denial (versus no response) increase when the regulator is accused of excessive regulation (p = .047), that the odds of admitting the problem relative to not responding increase when facing claims of underregulation compared with the claims of adequate or mixed regulation (p = .042), and although the odds of admitting the problem relative to denying it in cases of underregulation increase as well, this effect loses its statistical significance (p = .151).[18]

Interactive Effect of Salience

Our main model, as presented in table 3, unexpectedly suggests that salience has no effect on the agency's content of response. This result is surprising given the established findings that salience enhances the risk of political intervention. Consequently, we sought to tentatively test the potential moderating effect of salience. To assess this possibility, we carved up the sample by level of salience—above and below the mean, expecting that the differential effect of regulatory content would be more pronounced under higher media salience as the risks to both distinct reputation and political intervention are higher.[19] By comparison, when salience is low the agency's attention and therefore its communication strategies may be less sensitive and precise.

Results, as presented in table 1A of the appendix, overall corroborate this theoretical expectation. Thus, the likelihood of admitting the problem relative to not responding increases when facing salient claims of underregulation, compared with the salient claims of adequate or mixed regulation, in accord with H_{1a}, whereas this effect did not emerge at any acceptable level of statistical significance under low salience. Additionally, the likelihood of denying the problem relative to not responding increases when facing salient claims of overregulation, compared with the salient claims of adequate or mixed regulation, in accord with H_{1b}, whereas this effect did not emerge under low salience. These results seem to suggest that salience moderates the effect of *both* underregulation and overregulation allegations and renders them

Table 4
Likelihood Ratio tests for Combining Alternatives

Contrast Tested	χ^2	df	$p > \chi^2$
Denial versus blame shifting	55.021	19	.000
Denial versus full admission	32.250	18	.021
Denial versus no response	102.236	19	.000
Blame shifting versus full admission	23.618	19	.211
Blame shifting versus no response	86.909	19	.000
Full admission versus no response	34.739	18	.010

Note: Entries are LR tests for combining alternatives (N = 799), following a model wherein the dependent variable encompasses four types of responses: (i) no response, (ii) problem denial, (iii) blame shifting, and (iv) full admission; H0: All coefficients except intercepts associated with a given pair of alternatives are 0 (i.e., alternatives can be collapsed); Note that the fixed effects of years were omitted from this model due to convergence difficulties.

18 Full results are available from the authors.
19 We thank Reviewer 2 for raising this point.

worthy of some response (as opposed to silence). However, for the same level of salience, the agency's choice of between problem admission and problem denial is shaped by the content of the allegations.

DISCUSSION AND CONCLUSION

Regulatory agencies are judged by multiple audiences on the basis of manifold and conflicting criteria. In response to these external signals, agencies may modify their structures, procedures or practices. They may also, as we stress here, seek to reshape external perceptions and demands by means of verbal communications. However, agencies are not equally attentive and responsive to all audience judgments and demands. We propose that regulatory attention to—and management of—external signals varies with the relative threat to an agency's distinct reputation. Hence, this article has centered on agencies' differential communication patterns as a function of the content of public allegations while controlling for their context.

Our empirical analysis focuses on the Israeli banking regulator's choice between silence, problem denial and problem admission in response to external judgments of its performance. In particular, we analyze how this agency manages claims of underregulation versus overregulation, which encapsulate a key dimension of the content of allegations. We demonstrate this regulator's relative propensity to admit problems, and mostly shift blame to others (rather than either remaining silent or denying a problem altogether), when faced with claims that regulation is overly lenient. Hence, although the agency seldom assumes responsibility for the alleged harm, it acknowledges that the public's interests have been undermined. We find an opposite pattern for claims of regulatory burden, showing that the agency is relatively inclined to deny such claims altogether. These findings hold while controlling for the context of allegations (i.e., their salience, severity, venue, and year) and for the regulator's reputational reserves across functional areas.

Thus, although claims of regulatory burden are critical of agency performance, and although they are sometimes politically salient and involve visibly severe outcomes (e.g., restricted construction of housing due to limited availability of finance), they are less likely to elicit agency admission of a problem when compared with claims of regulatory leniency. We suggest that these findings reflect the agency's compound calculus of response, and its attempt to balance between the immediate and long-term threats to its reputation and operation. The agency, we suggest, is relatively inclined to acknowledge problems of underregulation because these carry a higher threat to its reputation, and because denying such claims can further exacerbate this threat. This is so because claims of underregulation directly challenge an agency's reputation as guardian of the public's interests. In addition, and related, claims of underregulation tend to involve accusations that regulators are captured by big business to the detriment of the public at large. Consequently, denying an alleged harm or justifying nonintervention can intensify public attribution of blame to the agency. By comparison, denying or justifying allegations of overregulation may actually enhance the regulator's reputation as guardian of the public's interests.

But when and why does the agency tend to shift blame, rather than assume responsibility and claim an expansion of its jurisdiction? Assuming responsibility for additional regulatory tasks entails an increase in future operational costs, as well as enhanced public expectations for regulatory risk mitigation. Fuelling public expectations can cause the agency greater reputational damage in the event of a future failure. In this respect, shifting responsibility to others, while acknowledging a problem, is the agency's means of balancing the immediate and long-term threats to its reputation. Yet blame shifting is a risky strategy that can trigger a vicious cycle of blame games (cf. Hood 2002; Moynihan 2012). We therefore expect an agency to employ blame shifting cautiously, under relatively extreme conditions. Specifically, we expect an agency to engage in problem admission and blame shifting only inasmuch as the threat to its reputation passes a certain threshold that renders such strategy worthwhile given its risks. This latter consideration can explain why cases of problem admission and blame shifting are less prevalent than problem denial.

Is there an alternative explanation that may account for the above findings? A possible challenge to our above interpretation suggests that the agency's tendency to acknowledge claims of under-regulation may be driven by the fact that these are cases wherein the agency typically exerts low effort (i.e., shirks) and is therefore unable to credibly defend itself. Conversely, the agency's tendency to deny claims of overregulation may involve cases wherein it exerts high effort, which it perceives as proportionate, and is consequently in a good position to rebuff public allegations. Our empirical analysis mitigates the above concern by controlling for three outcome measures that may be associated with the objective stringency or leniency of the BSD's regulation (incidents of bank collapse, the availability of finance for the construction of new homes, and the level of bank fees). Still, we could not directly control for the agency's efforts or inputs—that is, the change in its allocation of budget, personnel, managerial attention etc. across issues and tasks as relevant for each individual allegation.

While controlling for the agency's efforts would be valuable, we think that our interpretation is theoretically sound despite this limitation. Public perceptions and claims of underregulation versus overregulation and regulators' internal assessments of their efforts are unlikely to be strongly correlated. Public perceptions and assessments of regulation are based on asymmetrical information and on laypeople's value-laden and conflicting judgments of adequate levels of regulatory intervention in the economy. By comparison, agency officials' assessments of the adequacy of their regulatory efforts are based on inside information, on professional norms and on organizational priorities, which are unlikely to be shared by the public. Such divergence in factual information and values is particularly likely in complex areas such as banking regulation (cf. Gormley 1986; Ringquist 1995; Ringquist et al. 2003). These differences entail that an agency may be exerting high effort in regulating a certain issue, or it may be exerting what it professionally perceives as adequate effort, yet it may be judged by some of its audiences as overly lenient. And equally, an agency may exert relatively low effort (e.g., compared with its effort in other domains, its effort in past years or compared with similar regulators abroad), yet be perceived by some of its audiences as over regulating. It is therefore unlikely that the BSD tends to acknowledge claims of underregulation simply because these allegations coincide with its officials' perception of their actions as lacking on professional grounds.

Hence, our overall, tentative theorization of the above findings is that some allegations, given their content, pose a higher threat to agency reputation. They therefore create a compelling need for the agency not only to respond (rather than keep silent) but to acknowledge a problem and provide an account for its inaction even if only in terms of shifting blame to others. Other apparently equally salient and severe claims will instigate less intensive or less risky agency responses. These conclusions have important implications for current research. First, we contribute to current studies of bureaucratic reputation by demonstrating agencies' differential management of immediate and long-term threats to their reputation via communication and by distinguishing the shaping of reputation-protection from other bureaucratic-autonomy strategies. Second, our findings suggest that public exercise of influence in the public domain may be enhanced by framing claims in light of the agency's distinct vulnerabilities.

Although these conclusions are derived from a single case study, this case is theoretically illuminating and methodologically rigorous. We recognize, however, that it is unclear under what conditions these findings are generalizable to other types of agencies and to other regulatory contexts. For example, agency inclination to adopt a strategy of blame-shifting may be contextual, because blaming tends to work better in contexts where there is someone to blame. Where there is no one to plausibly blame, this may alter the regulator's willingness to acknowledge problems in the first place. Moreover, although agencies' communication strategies are an important and understudied terrain of public-bureaucratic interface, there is a need for integrative research that analyzes the interaction between regulators' communication and their material action in response to democratic politics. Bearing these caveats in mind, we were still able to produce some novel insights that point towards a promising avenue for future comparative research on regulatory differential sensitivity to public allegations of underregulation versus overregulation. Moreover, our robust analysis indicates that a fruitful direction for further research may involve analysis of possible interaction effects between agencies' management of threats to their distinct reputation and the likelihood of political intervention. We expect the building blocks of our theoretical framework and the operational variables that we have constructed for this study to safely "travel" and adapt to such further research settings.

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APPENDIX

Table 1A
Multinomial Logistic Regression of the Supervisor's Content of Response by Level of Salience

	Salience High				Salience Low			
	Problem Denial versus No Response		Problem Admission versus No Response		Problem Denial versus No Response		Problem Admission versus No Response	
I. Underregulation	0.455	(0.622)	1.806	(0.879)**	0.454	(0.571)	0.689	(0.850)
Excessive regulation	1.194	(0.696)*	0.896	(0.906)	0.494	(0.534)	0.235	(0.938)
II. Severity								
Bank collapse	0.186	(1.417)	0.941	(0.905)	−0.814	(0.697)	2.327	(0.708)***
Construction (standardized)	0.000	(0.000)***	0.000	(0.000)	0.000	(0.000)	−0.001	(0.000)*
Bank fees (standardized)	0.018	(0.009)**	0.021	(0.013)	−0.026	(0.014)*	−0.002	(0.031)
III. Consumer protection	0.638	(0.508)	1.629	(0.761)**	0.346	(0.464)	1.618	(0.990)
Other	−0.100	(0.451)	0.740	(0.842)	0.124	(0.402)	0.893	(0.655)
IV. Negative source perspective	1.015	(0.732)	−0.409	(0.709)	1.323	(0.715)*	−0.540	(0.844)
VI. Overall tone	−0.495	(0.492)	0.761	(0.915)	0.410	(0.493)	1.050	(.836)
VII. Journalist opinion	−0.799	(0.634)	−1.540	(0.754)**	−0.034	(0.615)	−.132	(.746)
Knesset proceedings	1.070	(.660)	.379	(0.731)	2.430	(.641)***	2.099	(0.828)**
Court proceedings	0.086	(1.246)	−0.403	(1.222)	0.111	(0.910)	0.570	(1.337)
Formal correspondence or meeting with regulator	1.819	(0.890)**	0.787	(0.966)	2.085	(0.825)**	−13.113	(0.912)***
Governmental or semi-governmental reports	1.721	(0.939)*	0.051	(1.185)	−13.854	(0.788)***	−13.993	(1.283)***
Conference	0.218	(0.777)	−15.766	(0.602)***	1.096	(0.730)	0.886	(1.010)
Distinct other	0.394	(0.604)	0.557	(0.708)	1.017	(0.572)*	0.776	(0.798)
Indistinct other	0.211	(0.827)	−16.524	(0.640)***	0.901	(0.897)	−13.818	(0.991)***
Constant	−9.161	(2.282)***	−8.438	(2.342)***	−1.243	(1.882)	−1.165	(4.183)
N	395				404			
Log likelihood	−179.953				−191.598			
Wald Chi-square	$\chi^2(34) = 2569.26$***				$\chi^2(34) = 2960.44$***			
Pseudo R2	21.60%				24.87%			

Note: Table entries are unstandardized multinomial logistic estimates, with robust standard errors in parenthesis; Fixed effects for years are included, but not presented, in the models.
***$p < .01$; **$p < .05$; *$p < .1$, two tail.

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