Organizational Stigma: Sources and Outcomes

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ABSTRACT

Organizational stigma is a useful adaptation of the concept of social stigma, which can be used to understand why some organizations are saddled with the image of being socially unsavory or undesirable. In this paper, we define the concept of organizational stigma and review it in relation to established theory and similar organizational constructs. We argue how organizational stigma is developed, and discuss various outcomes from organizational stigma. We conclude with a discussion of implications for practitioners and academics.

INTRODUCTION

Modern businesses are famously reluctant to suffer damage to their brand image. Most firms are quick to disavow controversial personnel, such as Disney recently firing movie director James Gunn over unearthed offensive tweets from 2009 to 2012 (Barnes, 2018), or Nike ending an endorsement deal with Livestrong after Lance Armstrong confessed to cheating (Macur, 2013). Similarly, though often more complicated to disconnect from, firms regularly seek to avoid negative public perception from engaging with distasteful and unethical business practices, such as Nike addressing the tarnished image from employing sweatshops in the 1990s (Nisen, 2013) and, more recently, Apple dealing with the fallout from worker suicides and protests regarding their business relationship with electronic manufacturer Foxconn (Sin, 2016). Similarly, entire industries come loaded with an overarching image that drives away talent and business opportunities, such as the newly legal marijuana industry, which many top entrepreneurs are avoiding due to the continued stigma attached to the industry (Guion, 2018). As a result, organizations need to understand how stigma forms and the potential outcomes of such a stigma that could impact ongoing business practices.

Stigma is an important construct in the social sciences literature related to individuals and groups of individuals who depart from social norms that has been extensively researched in psychology (Crocker & Major, 1989; Pinel, 1999), communications (e.g. Rintamaki & Brashers, 2010; Smith, 2007), and sociology (e.g. Goffman, 1963; Link & Phelan, 2001). Social stigma was defined by Goffman (1963) as social discrimination of an individual because of a departure from social expectations. The definition has been extended in the communications discipline to "negative attitudes held about individuals who are perceived to possess a trait deemed negative by the community at large as well as those with whom these individuals are associated" (Rintamaki & Brashers, 2010, p. 157), which adds a social dimension in reference to the community at large, as well as a personal network dimension in regards to associated individuals.

Transitioning into the organizational literature, stigma is still a relatively new concept, and has often been used without being carefully defined. In business research, stigma has been extended from an individual and social construct to an organizational conceptualization, defining stigma as "a label that evokes a collective perception that the organization is deeply flawed and discredited" (Devers, Dewett, Mishina, & Belsito, 2009 p. 155). Therefore, like the concept of stigma defined by communication, stigma carries an element of social discrimination, but does not explicitly include the network element. However, stigma has still received little attention as a construct in organizational literature, particularly in regards to organizational relationships and the consequences of stigma for an organization.

In the following section, we ground the concept of organizational stigma in relation to established theory and then review the concept of stigma in relation to similar concepts. Next, we state and explain conjectures regarding the formation and outcomes of organizational stigma as built on business theory, research and numerous examples from modern businesses. Finally, we discuss implications for practitioners and academics, and we make our concluding remarks.

LITERATURE REVIEW

One underlying theoretical perspective on organizational stigma is provided by signaling theory (J. G. March, 1978; Spence, 1973, 1974). The concept of organizational stigma necessarily implies that some characteristics about the firm are evaluated and considered by others to be inherently undesirable and flawed (Devers et al., 2009). In other words, stigma carries the notion that characteristics about the firm are signaled to other actors, who draw conclusions about the firm based on those signals. Signaling theory suggests that firms operate under conditions of incomplete information and uncertainty, and draw conclusions about a firm based on characteristics, actions or products that are signaled through various communication channels (Spence, 1973; Simon, 1982; March, 1978). Signaling theory suggests that firms are not able to completely understand each other, and therefore view these signals as indicators about the firm that is sending the signals (Connelly, Certo, Ireland, & Reutzel, 2011). Therefore, organizational stigma may form since firms have imperfect information and are also limited in regards to how much information they can take in (Simon, 1957). When firms are deciding to engage in interorganizational relationship, "signals" regarding even the appearance of stigmatized characteristics, such as business practices that may be unethical or unsavory (i.e. bankruptcies, use of sweatshops of child labor), engagement with tarnished brands or personalities (i.e. post-scandal celebrities), or connection to questionable products (i.e. marijuana or pornography) may influence whether an interorganizational relationship will be perceived to be mutually beneficial or not.

Management fashion theory similarly suggests that organizations operate under conditions of uncertainty, but focuses on decision-making and suggests that managers make decisions regarding what managerial practices to pursue based on the prevailing wisdom set by management fashion setters, such as consultants, business academics, business media, as well as individual business celebrities, gurus and heroes (Abrahamson, 1996). As management fashions change and are disseminated through business communities, fads about what business practices are and are not acceptable or stigmatized may change (Abrahamson & Fairchild, 1999). Since organizations seek to pursue legitimacy (Kostova & Zaheer, 1999), firms will likely alter managerial activities to conform to the new standards determined by current management fashion. As a result, certain business practices may have been stigmatized at one time but may become less stigmatized as management fashion changes. For example, as newly legal marijuana-based companies professionalize their industry, perhaps it will shed the stigmatized image of being for "slackers" and "stoners" (Oakes & Amer, 2018). In this way, management fashion theory suggests elements of business practices and products may be considered stigmatized at one time, but slowly move in and out of fashion based on the behavior of trendsetters.

In addition to understanding theories of how and why organizational stigma carries meaning between firms and how stigma might change over time, it is crucial to distinguish the concept of stigma from relevant and similar organizational constructs. Organizational stigma has also been distinguished from similar, yet distinct constructs including reputation, status, celebrity, and legitimacy (Devers et al., 2009; Mishina & Devers, 2012), each of which we discuss in turn.

A firm's reputation is an evaluation leveraged by potential business partners and suppliers when gathering more information about a firm is challenging or expensive (Shamsie, 2003). A firm's reputation is similar to organizational stigma in that the reputation carries meaning about a firm in absence of more detailed information. However, whereas organizational stigma is only addressed in the negative sense of attachment to unpleasant or unacceptable characteristics, reputation can be negative or positive. In fact, research on reputation generally focuses on the advantages of a strong, positive reputation and how to create such a reputation (e.g. Bear, Rahman, & Post, 2010; Pfarrer, Pollock, & Rindova, 2010; Turban & Cable, 2003). For example, Facebook's once strong reputation has begun to suffer due to its continued struggle with controversial political issues (Bomey, 2018; Oremus, 2018).

Organizational status is similar to reputation in that it carries some connotation of the firm's standing in the business community, but status more specifically captures the firm's standing or ranking in relation to other, relevant organizations (Washington & Zajac, 2005). Status similarly can be used to set the organization apart from others, as with reputation and stigma, but status is very industry and context-specific in that it accords the firm a ranking in relation to other firms (Podolny & Phillips, 1996; Washington & Zajac, 2005). In fact, in some settings organizations are explicitly ranked, such as the university rankings created by U.S. News and World Report (www.usnews.com/best-colleges). In this way, status is not necessarily positive or negative, like reputation, or only negative, like stigma, but instead is high or low based on whether the firm is considered to be of higher status than related firms or not.

Firm celebrity refers to the manner in which a firm receives special, and positive, attention based on their deviation from normal practice (Rindova, Pollock, & Hayward, 2006). Celebrity firms generally receive some level of praise and adoration from media sources (Kjærgaard, Morsing, & Ravasi, 2011), which in turn distribute to positive affect from the general population and, ultimately, provides access to additional resources and benefits (Pfarrer et al., 2010). Firm celebrity, accordingly, is generally considered to be positive and desirable for an organization, unlike organizational stigma. For example, Tesla has received significant media attention for the way they do things differently, from their research and development and manufacturing processes to their distribution approach and celebrity CEO, Elon Musk (Markman, 2018).

Legitimacy captures the idea that a firm acts appropriately and conforms with societal expectations (Dowling & Pfeffer, 1975; Kostova & Zaheer, 1999). Concerning firm legitimacy, institutional theory posits that firms face pressure to comply with social norms and to appear legitimate to stakeholders (DiMaggio & Powell, 1983). From an interorganizational perspective, creating and maintaining interfirm relationships can contribute to perceptions of legitimacy

(Barringer & Harrison, 2000). In fact, Oliver (1990) identified the desire for legitimacy as a critical reason for firms to enter into interfirm relationships. The motive of legitimacy also extends to a firm's desire for enhanced image, prestige, and acceptance of social norms. Often organizations will seek to partner with another firm, which is perceived to have greater legitimacy. In this way, firms have every incentive to partner and do business with other firms that maintain and display legitimacy, but also have incentive to avoid those that would not strengthen their underlying legitimacy. For example, Nike desires to maintain their social legitimacy, and so they ended their connection to Livestrong when it was revealed that Lance Armstrong was cheating during his racing success (Macur, 2013). Since firms desire to establish and improve the public perception of their legitimacy, organizational stigma will likely decrease the ability of a firm to engage in interfirm relationships because, as the definition of stigma indicates, the stigmatized firm has departed from social expectations. In other words, a highly stigmatized firm would have a very low level of legitimacy due to this departure from social norms (Devers et al., 2009).

In the following section, we define organizational stigma, and then state and discuss major conjectures regarding how organizational stigma is formed regarding an organization, and the practical outcomes regarding the resulting impacts of stigma attached to an organization.

Organizational Stigma

The focal construct of the study, organizational stigma, was conceptualized by Devers, Dewett, Mishina, and Belsito (2009) as "a label that evokes a collective perception that the organization is deeply flawed and discredited" (p. 155). This definition is similar to those found in the sociology and communications literatures in that the term describes a trait (or label) that is negative and has a social element (collective perception), but the crucial element that is missing from the Devers et al. definition is the departure from social norms as described in the initial conception of stigma by Goffman (1963). Thus, organizational stigma will be defined as a label that evokes a collective perception that the organization is deeply flawed and discredited due to a departure from social expectations.

In the case of organizational stigma, a firm has multiple stakeholder groups that could perceive some form of stigma related to the firm. When examining the impact of stigma on relationship development, the two primary stakeholder groups that will contribute to the overall organizational stigma are the consumer and current or potential business partners, but we also consider the role of external stakeholders.

Consumer-based stigma is the first considered source of organizational stigma. The relationship between firm outcomes and consumer perceptions of firms has been long established in the marketing literature. For example, research has demonstrated that firms' financial performance is affected by consumer measures such as consumer-based brand equity (Kim, Kim, & An, 2003), customer satisfaction (Anderson, Fornell, & Lehmann, 1994; Foster & Gupta, 1997), and customer loyalty (Hallowell, 1996). In addition, in the sociology and communications literature, there is a link between how individuals treat those with a perceived stigma and the outcomes for stigmatized individuals (e.g. K. March, 1995; Suter, 2008). Consumer-perceived stigma may stem from social norms of firm practices, industry objectives, and social issues. For example, the oil and gas industry is often labeled by consumer groups such as Greenpeace as untrustworthy and engaging in dangerous practices (Franziska, 2013), and the global arms industry has also faced stigma (Vergne, 2012). More recently, Facebook has faced significant backlash for their role in exposing access to millions of user profiles and for their role in enabling the manipulation of public opinion in recent elections (Bomey, 2018; Oremus, 2018). The industries are labeled by collective groups of consumers in a discrediting manner as suggested by the definition of organizational stigma.

Conjecture 1: Consumer-perceived stigma contributes to organizational stigma.

Stigma may also occur among stakeholders in existing and potential interfirm relationships or networks. Constructs such as reputation have already been linked to networks and relationships (Barnett & Hoffman, 2008), and should logically extend to the perception of stigma in interfirm relationships. Business-perceived stigma suggests that other businesses and organizations perceive some characteristic, or signal, about the firm that is socially unsavory and undesirable and would potentially lower the perceived legitimacy of any firm that chooses to do business with the stigmatized firm. For example, Major League Baseball, the National Football League, and the University of Louisville all severed ties with Papa John's Pizza following the use of racist language by founder John Schnatter (Kelleher, 2018). As a result of the stigma attached to the racial language, Papa John's accordingly raced to distance itself from their controversial founder in order to minimize the negative publicity (Sherman, 2018). In a similar instance, numerous brands ended advertising arrangements with the "Hannity" television show following perceived controversial content on the show (Whitten, 2017). As a result, clearly organizations sense and respond to potentially being attached to stigmatized organizations.

Conjecture 2: Business-perceived stigma contributes to organizational stigma.

In addition to the customers and potential business partners, firms are regularly evaluated and impacted by myriad other stakeholders who have some form of interest in the behaviors and outcomes of the organization. People living in communities near businesses have a vested interest in the firm's activities and success or failure. For example, local community members and activists regularly protest the construction of oil pipelines that cross through or near their communities (Maher, 2018). Similarly, interest groups regarding political issues regularly seek to pressure organizations to change their behavior by stigmatizing certain products or activities. In early 2018, national retailers like Walmart and Dick's Sporting Goods ceased sales of certain types of controversial firearms following the threat of boycott from activist groups following the Parkland school shooting (Taylor, 2018).

Conjecture 3: External stakeholder-perceived stigma contributes to organizational stigma.

Signaling theory (Connelly et al., 2011) offers a useful perspective on stigma, because signaling theory addresses the signals themselves, or the characteristic or action that might create organizational stigma, and also addresses communication channels, or the paths through which organizational stigma may be communicated and expressed. As a result, we consider that consumers, current and potential business partners, and external stakeholders may receive signals through different channels and may also express discontent with the stigma through various methods. Given that customers often only interact with organizations through the "forward-facing" elements of the firm, learning about stigmatized behavior may often come from news sources or social media. Additionally, when customers perceive stigmatized behavior from an organization, they can easily "vote with their wallets" by no longer patronizing or engaging with the organization. In the fallout from Facebook's controversies, many users simply opted to stop using the social platform (Bomey, 2018; Oremus, 2018). On the other hand, businesses often engage personally with potential business partners, through site visits, trade shows, and so forth. Given the far more personal nature of such interactions, businesses may learn of stigmatized behavior and actions directly or through face-to-face social networks. Consequentially, the severing of ties as a result is often a far more public move, such as the distancing of Nike from Livestrong (Macur, 2013) and of the organizations that cut ties with Papa John's (Kelleher, 2018). Finally, community and interest groups might learn of stigmatized behavior in similar ways to firm customers, but these groups often were not financially supporting the firms to begin with—such as gun control activists who were unlikely to ever purchase firearms. Instead, such external stakeholders are far more likely to express their discontent and intentionally drive stigma regarding the organization through other methods: such as protests, promoting boycotts and petitions (Maher, 2018; Taylor, 2018). As a result, we suggest that the separate groups learn about and contribute to organizational stigma through distinct channels.

Conjecture 4: Consumers, businesses and external stakeholders perceive and respond to organizational stigma through distinct channels.

Whereas signaling theory highlights the role of signals and channels in forming and responding to stigma among various groups, we consider the relevance of management fashion theory in relation to organizational stigma (Abrahamson, 1991, 1996; Abrahamson & Fairchild, 1999). Specifically, management fashion theory suggests that some types of business practices may become "in vogue" and other practices may fall out of popularity. As trend setting organizations embrace certain types of behavior, less fashionable practices may fall out of favor and, at some point, even become stigmatized. For example, businesses declaring bankruptcy have long carried stigma regarding their reliability for future business endeavors (Sutton & Callahan, 1987; Ucbasaran, Shepherd, Lockett, & Lyon, 2013), but Harvard Business School Professor Stuart Gilson argues that bankruptcy should not carry shame and should instead be viewed as a useful way to restructure corporate debt and revive business activities (Gilson, 2010). As a result, perhaps more fashionable views on bankruptcy may permeate through industry networks and change the stigma attached to the declaration of bankruptcy. Furthermore, many business practices were once accepted but now are considered highly stigmatized, such as child labor (Basu & Tzannatos, 2003) or the use of inhumane labor practices in "sweatshops" (Emmelhainz & Adams, 1999). As a result, we argue that perception of business practices change over time and stigmatized practices may become accepted, while accepted business practices may become stigmatized.

Conjecture 5: Over time, acceptable norms change and stigmatized practices may become acceptable, and vice versa, based on acceptable managerial fashion.

While the fallout from organizational stigma in regard to consumers is rather straightforward, and often may occur in the form of tarnished brand image and reduced sales, we turn towards understanding the consequences of stigma for interorganizational relationships. In order to fully perceive and understand the outcome of organizational stigma in regard to interorganizational relationships, we must consider the process by which organizations form and maintain business relationships with one another. The process by which firms go through to develop interfirm relationships has five phases: awareness, exploration, expansion, commitment, and dissolution (Dwyer, Schurr, & Oh, 1987; Scanzoni, 1979). During the awareness phase, the firms recognize each other's potential as an exchange partner, though there is not any interaction between the firms during this stage. The exploration phase begins with contact between the firms in which they consider benefits and obligations of engaging in exchange with the other firm. Dwyer and colleagues (1987) point out that the exploration phase is especially fragile because only minimal investment has occurred, and the firms have not yet become interdependent upon each other, thus terminating the relationship is quite easy. The third phase is expansion, which refers to the continuity and maintenance of the relationship in terms of benefits gained by each firm as well as increasing interdependence between the firms. The next phase is commitment, where the firms make a formal or informal contract to ensure the continuity of the relationship. At this stage, the firms' interdependence has reach a level at the commitment phase that is derived from satisfaction and precludes other potential relational partners. The final phase of the relationship development process is dissolution, which could occur at any point in the process.

Attraction has been extensively studied in the sociology and psychology literature bases and the attention paid to attraction in the marketing literature has been, for the most part, confined to consumer behavior literature. However, attraction has been defined in the relationship marketing literature as "the extent to which relational partners perceive past, current, future or potential partners as professionally appealing in terms of their ability to provide superior economic benefits, access to important resources, and social compatibility" (Harris, O'Malley, & Patterson, 2003 p. 12). Attraction is a key subprocess of the exploration phase of relationship development but is not limited to the exploration phase. It is also a part of the expansion phase, and it is in this phase that a link between attraction and stigma can be found. Jensen (2006) found that as stigma develops, existing clients are more likely to terminate relationships with the stigmatized organization. Similarly, as an organization becomes stigmatized, stakeholders begin to disidentify with the firm (Bhattacharya & Elsbach, 2002; Elsbach & Bhattacharya, 2001). From a relationship development perspective, it is likely that organizational stigma would impact perceptions of attractiveness by potential exchange partners during the exploration phase of the process. In turn, the potential action of engaging in transactions and a relationship with the stigmatized firm is expected to be impacted by attraction as the potential relationship moves into the expansion phase of the relationship development process. Furthermore, the conduct or discovery of stigmatized behaviors by a firm provide clear incentive for business partners to immediately dissolve the relationship.

Conjecture 6: Organizational stigma decreases attraction from potential business partners and increases the likelihood of dissolving existing relationships.

Cannon and Perreault, Jr. (1999) identified a number of constructs that are critical to the development of interfirm relationships between buyer and sellers. Among the constructs they identified as critical is availability of alternatives, which is a situational determinant of creating interorganizational relationships. If there are a limited number of alternatives, then firms may experience uncertainty (Achrol & Stern, 1988), leading to a lessened negative effect of organizational stigma on attraction and other potential interorganizational outcomes. For example, De Beers famously controlled a significant portion of the world's diamond supply, and faced significant stigma and controversy due to their perceived ties to "blood diamonds" or diamonds purchased from rebels and warlords that supported ongoing conflict in Africa (Cowell, 2000). However, because De Beers, at the time, maintained a near monopoly on the diamond market, many businesses were forced to do business with them regardless (Goldschein, 2011). Therefore, the outcomes of organizational stigma are likely heavily contingent on the ability of a firm to find a less stigmatized partner to engage.

Conjecture 7: When faced with few available alternatives, there is a weaker negative connection between stigma and attraction, and a weaker positive connection between stigma and the likelihood of dissolving an existing relationship.

Trust has been conceptualized in the marketing literature based on prior definitions from social psychology as "the perceived credibility and benevolence of a target of trust" (Doney & Cannon, 1997). The definition of organizational stigma indicates that it functions to discredit a firm, and so, it is reasonable to expect that trust and organizational stigma carry some level of connection. The construct of trust has been identified as a key determinant of future interactions in an interorganizational relationship (Doney & Cannon, 1997). Based on this prior research, it is expected that trust will play an inhibiting role in deterring negative outcomes following the disclosure of some stigmatized behavior. For example, following the fallout from Equifax's massive security breach exposing the data of 145 million customers, many angry individuals expressed displeasure and the government levied fines; however, Equifax's business partners rather clearly maintained enough trust in the company to willingly continue with business as usual (Lobosco, 2017). As a result, we suggest that trust within an interorganizational relationship buffers any negative outcomes of stigmatized actions.

Conjecture 8: Trust will act as a buffer that slows business partner responses to disclosure of stigmatized actions.

IMPLICATIONS

Based on the perspective of organizational stigma, how it is developed, and its outcomes specifically in regard to interorganizational relationships, we now move on to offering practical guidance and implications for managers as well as theoretical contributions for academics. In terms of practical implications, we suggest that it is critical for managers to understand what types of behaviors will and will not be socially acceptable to their clients, business partners and external stakeholders. Although it may be impossible to always fit with the expectations of all three groups, managers should consider relevant tradeoffs when evaluating decision alternatives. In other words, the most practical manner to avoid fallout from organizational stigma is to seek to avoid engaging in stigmatized behaviors in the first place.

Additionally, we suggest that consumers, business partners and external groups will learn about and respond to stigma through different channels and take distinct actions regarding the exposure of socially distasteful behaviors. For example, we might expect customers to reduce their likelihood of engaging with the business, business partners to distance themselves from the relationship as possible, and for outside stakeholder groups to maximize the publicity of the stigma in order to influence the firm to conform to their point of view. As with making decisions regarding behaviors that may cause such outcomes, managers might need to balance their response to poor publicity to satisfy the different motivations and desires of various groups, and fully meeting the desires of each group may not be feasible. Furthermore, some stigmatized issues may find two groups diametrically opposed, such as customers who seek to buy firearms and interest groups who seek to stop a firm from selling firearms (Taylor, 2018). In times like these, firms may need to weigh the loss of sales from the existing customer base and damage to interorganizational relationships with relevant suppliers (e.g. firearms buying customers and suppliers) against the potential damage from failing to meaningfully respond to potential protests.

Finally, we suggest that managers be aware that the extent to which businesses can engage in some level of stigmatized activity may be enabled by the level to which the firm is the sole, or one of few, suppliers of a given product/service, as well as the level of trust developed between the firm and existing partners. Though firms may not be able to intentionally force others out of their industry, they should be extra careful to avoid stigmatized behaviors when they are one of many businesses in a given industry such that customers can easily leave for another supplier. Additionally, by carefully cultivating trust with business partners, firms may buy themselves time to respond to negative public relationships and any revelations of stigmatized behavior that may otherwise be damaging.

We also offer several theoretical contributions. First, we combine organizational stigma with signaling theory to suggest that different actors and stakeholders sense signals regarding a firm's stigmatized activities differently through distinct channels, and may respond in distinct ways, again through distinct mediums. Second, we suggest that management fashion theory may explain how some behaviors become stigmatized, or stop being stigmatized, over time. Third, we add to the understanding of the relationship development process by introducing organizational stigma as a determinant of attraction during the exploration phase. Fourth, we suggest that certain characteristics of the firm and the firm's industry may mitigate the outcomes of stigmatized behavior.

CONCLUSION

The concept of stigma is prevalent in interpersonal relationship literature, yet it has received little attention in the interorganizational relationship literature. This paper provides a discussion of organizational stigma as grounded in theory, prior research and examples from the modern business world. We propose an understanding of organizational stigma that should enhance the manner in which practitioners and academics understand the formation of stigma attached to organizations as well as relevant outcomes for these organizations and their interorganizational relationships.

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