

**ORGANIZATIONAL WRONGDOING
AS THE “FOUNDATIONAL” GRAND
CHALLENGE**

RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS

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RESEARCH IN THE SOCIOLOGY OF
ORGANIZATIONS VOLUME 84

ORGANIZATIONAL WRONGDOING AS THE “FOUNDATIONAL” GRAND CHALLENGE: DEFINITIONS AND ANTECEDENTS

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Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2023

Editorial matter and selection © 2023 Claudia Gabbioneta, Marco Clemente and
Royston Greenwood.

Individual chapters © 2023 The authors.

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-83753-279-7 (Print)

ISBN: 978-1-83753-278-0 (Online)

ISBN: 978-1-83753-280-3 (Epub)

ISSN: 0733-558X (Series)



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FOREWORD

Research in the Sociology of Organizations (RSO) publishes cutting edge empirical research and theoretical papers that seek to enhance our understanding of organizations and organizing as pervasive and fundamental aspects of society and economy. We seek provocative papers that push the frontiers of current conversations, that help to revive old ones, or that incubate and develop new perspectives. Given its successes in this regard, RSO has become an impactful and indispensable fount of knowledge for scholars interested in organizational phenomena and theories. RSO is indexed and ranks highly in Scopus/SCImago as well as in the Academic Journal Guide published by the Chartered Association of Business schools.

As one of the most vibrant areas in the social sciences, the sociology of organizations engages a plurality of empirical and theoretical approaches to enhance our understanding of the varied imperatives and challenges that these organizations and their organizers face. Of course, there is a diversity of formal and informal organizations – from for-profit entities to non-profits, state and public agencies, social enterprises, communal forms of organizing, non-governmental associations, trade associations, publicly traded, family owned and managed, private firms – the list goes on! Organizations, moreover, can vary dramatically in size from small entrepreneurial ventures to large multi-national conglomerates to international governing bodies such as the United Nations.

Empirical topics addressed by *Research in the Sociology of Organizations* include: the formation, survival, and growth of organizations; collaboration and competition between organizations; the accumulation and management of resources and legitimacy; and how organizations or organizing efforts cope with a multitude of internal and external challenges and pressures. Particular interest is growing in the complexities of contemporary organizations as they cope with changing social expectations and as they seek to address societal problems related to corporate social responsibility, inequality, corruption and wrongdoing, and the challenge of new technologies. As a result, levels of analysis reach from the individual, to the organization, industry, community and field, and even the nation-state or world society. Much research is multi-level and embraces both qualitative and quantitative forms of data.

Diverse theory is employed or constructed to enhance our understanding of these topics. While anchored in the discipline of sociology and the field of management, *Research in the Sociology of Organizations* also welcomes theoretical engagement that draws on other disciplinary conversations – such as those in political science or economics, as well as work from diverse philosophical traditions. RSO scholarship has helped push forward a plethora of theoretical conversations on institutions and institutional change, networks, practice, culture,

power, inequality, social movements, categories, routines, organization design and change, configurational dynamics, and many other topics.

Each volume of *Research in the Sociology of Organizations* tends to be thematically focused on a particular empirical phenomenon (e.g., creative industries, multinational corporations, entrepreneurship) or theoretical conversation (e.g., institutional logics, actors and agency, microfoundations). The series publishes papers by junior as well as leading international scholars, and embraces diversity on all dimensions. If you are scholar interested in organizations or organizing, I hope you find *Research in the Sociology of Organizations* to be an invaluable resource as you develop your work.

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INTRODUCTION: ORGANIZATIONAL WRONGDOING AS THE “FOUNDATIONAL” GRAND CHALLENGE: DEFINITIONS AND ANTECEDENTS

Claudia Gabbioneta, Marco Clemente and
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ABSTRACT

Organizational wrongdoing is still very much prevalent in today's society. Traditional and social media are full of examples of organizations engaging in unethical or illegal behavior. While it is difficult – if not impossible – to establish whether the ever-increasing number of reported cases of wrongdoing is due to an actual increase in the phenomenon (objectivist view of wrongdoing) or to more attention being paid to it (social-constructivist view of wrongdoing), the fact remains that organizational wrongdoing seems to have become the norm rather than an exception in our everyday life. This is concerning, as organizational wrongdoing tends to undermine trust in fundamental institutions, such as the Market, the State, Religion, and Law, and may lead to them being replaced by other – sometimes less desirable – institutions or create an “institutional void.” Because of its potential impact on established institutions, organizational wrongdoing deserves to be closely monitored and further examined. This volume of Research in the Sociology of Organizations is an attempt to draw attention to the theoretical and empirical relevance of the topic, consolidate and extend the knowledge accumulated in this area of research, and highlight potential direction for future research. The volume explores in particular the definitions and antecedents of organizational wrongdoing.

Keywords: Organizational wrongdoing; misconduct; scandals; corruption; unethical behavior; grand challenge; social evaluation

Organizational Wrongdoing as the “Foundational” Grand Challenge: Definitions and Antecedents
Research in the Sociology of Organizations, Volume 84, 1–11
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Published under exclusive licence by Emerald Publishing Limited
ISSN: 0733-558X/doi:[10.1108/S0733-558X20230000084013](https://doi.org/10.1108/S0733-558X20230000084013)

INTRODUCTION

In 2021, in opening the pages of a newspaper, one could not keep up with the number and frequency of reports on wrongdoing by organizations. In March, the U.K. Financial Reporting Council (FRC) commenced an investigation into Deloitte over its audit work of car dealership chain Lookers for the years 2017 and 2018.¹ The audit became part of an investigation by the Financial Conduct Authority (FCA), with allegations of fraud and black holes in Lookers' accounts. Although the FCA subsequently dropped its investigation, the FRC decided to carry out a full investigation of Deloitte's work. In effect, the FCA was implicitly probing Deloitte's role as a protector of the market system.

In July of the same year, both the former chief executive officer and the chief financial officer of telecommunications company FTE Networks were arrested and charged with accounting fraud among a series of crimes, including the embezzling of millions of dollars from the company to pay for private jet use, luxury automobiles, personal credit cards, unauthorized wire transfer, stock issuances, and unauthorized salary increases.²

In September 2021, the Securities and Exchange Commission fined New York City-based telecom Pareteum Corp. \$500,000 for overstating its revenue by approximately \$42 million over six quarters and for providing false information to its auditors.³ In the same month, Kraft Heinz agreed to pay \$62 million as part of a settlement with the Securities and Exchange Commission for improper accounting that led to the restatement of several years of financial reporting, and, in December, Peter Armbruster – the former chief financial officer of trucking and logistics company Roadrunner Transportation Systems – was convicted for his role in a complex securities and accounting fraud scheme.⁴

The above cases are just a few examples of companies that have been investigated or found guilty of financial misbehaviors within a few months. Such wrongdoings are not novel (Cooper et al., 2013): Enron (e.g., Arnold & de Lange, 2004; Coffee, 2001; Fox, 2003; Healy & Palepu, 2003; McLean & Elkind, 2013; Unerman et al., 2004) and Parmalat (e.g., Ferrarini & Giudici, 2006; Gabbioneta et al., 2013; Melis, 2005) are infamous earlier examples. But they do seem to keep attracting considerable and growing attention. Other venues and forms of organizational wrongdoing are also in the spotlight and are receiving significant media coverage internationally, such as the Weinstein and the Epstein scandals or the Roman Catholic Church's abusive treatment of indigenous children in residential schools, to cite a few.

Implications for Institutional Trust

It is difficult to establish conclusively whether instances of organizational wrongdoing are on the increase or whether the seemingly growing list is an outcome of media interest and its sharper ability to uncover and expose such behaviors. As unreported instances of organizational wrongdoing are difficult, if not impossible, to observe, the media are the main source of information on organizational

wrongdoing that one can draw upon (Roulet & Clemente, 2018, Clemente et al., 2016, Roulet & Pichler, 2020). The media, however, do not offer an objective, impartial representation of events (Clemente & Gabbioneta, 2017). Rather, by framing an event as an instance of wrongdoing, the media act as social control agents (Greve et al., 2010, Palmer, 2012), separating rightful from wrongful behavior and contributing to the categorization of that event as wrongdoing.

However, the increase in the number and frequencies of reported instances of organizational wrongdoing, whether due to an actual increase in the phenomenon (objectivist view of wrongdoing) or a social construction by the media (social constructivist view of wrongdoing), can and may irreparably undermine trust in fundamental institutions, such as the Market, the State, Religion, and Law (on this point, see also Lounsbury, 2023). These institutions are the foundation of our society, and they enable it to function and survive. If faith in these institutions erodes, they can become replaced by other, sometimes less desirable alternatives (Zucker, 1986). For example, in Italy in the second half of the nineteenth century, the lack of trust in the newly formed State – due to the absence of central government institutions at the local level and repeated episodes of corruption and wrongdoing – was associated with the emergence and development of various criminal organizations (e.g., Cosa Nostra in Sicily, 'Ndrangheta in Calabria, and Camorra in Campania) that seemed to offer an answer to the problems and uncertainties experienced by the population at the time (Dickie, 2004). Similarly, the series of sex scandals that hit the Catholic Church in the United States and elsewhere resulted in a loss of trust in this institution and a sharp decrease in the number of its members, some of which moved away from religion as a whole or joined more extreme congregations (Piazza & Jourdan, 2018). Or, again, the lack of trust in the functioning of the financial market in the aftermath of the wave of financial scandals taking place at the turn of the century, of which Enron and Parmalat are only the most egregious examples, was followed by a resurgence of barter and, more generally, of several non-market-based forms of exchange (e.g., Goff, 2009; Marin & Schnitzer, 2002). Moreover, if the lack of trust in institutions becomes widespread, it might be used to justify populist and even violent challenges to taken-for-granted norms and behaviors, which constitute the pillars of our society.

The consequences of organizational wrongdoing, in other words, could be profoundly disruptive. Furthermore, with more and more scholarly attention directed toward other grand challenges, such as climate change, social inequality, and sustainability, and multiple calls for scholars to study the Sustainable Development Goals (George et al., 2016), we should not forget that solving corruption (Castro et al., 2020) and other forms of organizational wrongdoing is a “foundational” grand challenge that underlies many others. As the UN puts it, “acting against corruption is imperative to achieving the recently adopted Sustainable Development Goals, which aim to end poverty, protect the planet, and ensure prosperity for all, amongst others” (UNDOC, 2020).

Hence, the motivation for this volume of *Research in the Sociology of Organizations* is to draw attention to the theoretical and empirical relevance of

the topic, to consolidate and extend the knowledge being accumulated in this area of research, and to highlight potential directions for future research. This volume explores in particular the definitions and antecedents of organizational wrongdoing, which we discuss below.

ORGANIZATIONAL WRONGDOING AS THE “FOUNDATIONAL” GRAND CHALLENGE: DEFINITIONS AND ANTECEDENTS

This volume, *Organizational Wrongdoing as the “Foundational” Grand Challenge: Definitions and Antecedents*, includes 12 papers and focuses on the definition and the antecedents of organizational wrongdoing. The increase in the number of studies on organizational wrongdoing in recent years has been accompanied by a proliferation of definitions. The most widespread and cited definition is offered by Greve et al. (2010), who define organizational wrongdoing

as behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses. (p. 56)

This definition highlights the socially constructed nature of organizational wrongdoing and points to the role of social control agents in defining, identifying, and sanctioning wrongdoing.

Social Control Agents and Organizational Wrongdoing

The first three studies of this volume probe the role of social control agents in drawing the line between rightful and wrongful behavior and assessing whether or not organizations have trespassed such a line. Social control agents are “actors that represent a collectivity and that can impose sanctions on that collectivity’s behalf” (Greve et al., 2010, p. 56). Examples of social control agents include market regulators, professional associations, and the media. Although several studies have acknowledged the role of these and other social control agents in the identification and punishment of organizational wrongdoing, not many have examined *how* social control agents exercise their role and differentiate between “right and wrong.” The first three studies in this Volume look into this issue and shed new light on the processes and mechanisms used by social control agents.

Cappellaro, Compagni, and Vaara examine how social control agents define organizational wrongdoing and show how such definitions can change over time. The Authors analyze how Italian state actors categorized behaviors in the so-called “gray area,” i.e., the conduct of individuals supportive of the mafia organization – Cosa Nostra – and its criminal aims, but who are not members of the organization. Cappellaro et al. document how state actors started from a preliminary definition of wrongdoing, moved to stigmatize the behaviors in question on moral grounds, and ultimately criminalized them with legal sanctions. They also identify three principles behind this evolving

definition: first, “intentionality of conduct,” i.e., the extent to which individuals consciously support Cosa Nostra; second, “freedom of choice,” i.e., the extent to which individuals are forced to support it; and third, “scope of harm,” i.e., the consequences of these behaviors for society. By showing that the definitions provided by social control agents evolve over time, and by identifying possible explanations for these changes, the Authors contribute to the debate on the active role of social control agents in the social constructionist view of organizational wrongdoing.

Pichler, Roulet, and Paolella add to the social constructionist view by showing that social control agents are not independent one from the other, and that the assessment of organizational wrongdoing provided by one social control agent (in their case, the government) affects the assessment provided by other social control agents (in their case, the media). The Authors look at the 2008 government bailout of investment banks in the United States and show that state support can attenuate negative media coverage but that severing this tie brings back negative evaluations. These results point to the interdependency of social control agents and their judgment of what constitutes organizational wrongdoing and, by doing so, illuminate one of the mechanisms that affect the way social control agents define and assess wrongdoing.

Fiorito, Hoff, and Ehrenhard unveil another mechanism that influences the behavior of social control agents: namely, the occurrence of fieldwide critical events, such as scandals or the introduction of new regulations. The Authors investigate why some fieldwide critical events can redirect social control agents’ attention and prompt them into action, while others do not. Using the case of a regulatory agency’s actions against violations of anti-money laundering regulations by three European banks over a 16-year period, the Authors identify three categories of fieldwide critical events: “constraining events,” “conductive events,” and “clustered events.” Constraining events significantly restrict social control agents’ ability to act upon the identified violations. Conductive events redirect social control agents’ attention toward the identified violations. Clustered events challenge ingrained beliefs among social control agents and spring them into action.

Organizational Wrongdoing and Organizational Scandals

The social constructionist perspective adopted by the studies in the previous section is further elaborated in the next three studies in this volume, which focus on organizational scandals – rather than organizational wrongdoing – and offer different accounts of the process and/or dynamics behind them. Organizational scandals originate from alleged or actual instances of wrongdoing, but there is a significant exacerbating effect – hence, it is important to grasp how scandals emerge and develop. For wrongdoing to become a scandal, in fact, it must become “known to others and (...) sufficiently serious to elicit a public response” (Thompson, 2000, p. 13). Scandals arise, therefore, from negative publicity that then produces powerful negative externalities (Adut, 2005). Understanding the processes and/or dynamics that turn organizational wrongdoing into a scandal is, thus, of the utmost importance.

In his study, Jourdan adopts a social constructivist approach to scandals and challenges the usual representation of scandals as discrete events, proposing that they may be better understood as interactional processes associated with the disclosure of alleged organizational misconducts that involve the following elements: (a) a public struggle between alleged perpetrators and social control agents over the framing of organizational misconduct; (b) moralizing by audience members; (c) collective effervescence at the societal level; and (d) the potential rewriting of the moral rules applicable to organizations and their members. According to Jourdan, the interactions between alleged perpetrators, social control agents, and audience members take place publicly against the backdrop of an implicit moral code that delineates which actions and behaviors are prohibited in a given societal context and are thus amenable to being framed as scandalous behavior.

Dewan and Jensen add to the view of organizational scandals as socially constructed by proposing the concept of “scandal dynamics.” The Authors distinguish between single-actor scandals, i.e., scandals that result from the publicity of misconduct by a single actor, and multiple-actor scandals, i.e., scandals that result from the publicity of misconduct of a similar type by multiple actors, and develop a framework that draws a distinction between how scandals start (single-actor or multiple-actor) and how they end (single-actor or multiple-actor). Doing so differentiates between spillover scandals (from single to multiple actors) and scapegoating scandals (from multiple to single actors) and identifies several mechanisms that affect the likelihood of these two types of scandals to occur: “defection,” “traceability,” “inferencing,” “intensity,” and “cohesion.” By identifying the mechanisms which explain different dynamics of scandals, the Authors lend additional support to the view of scandals as socially constructed and as dynamic processes comprising different mechanisms and actors.

Maier and Lamargot explore the media framings of an organizational scandal over time. Their analysis focuses on the frames used by the English and French Press in the coverage of the scandal involving SNC-Lavalin, a Quebec-based multinational engineering firm. The findings of the study show how media outlets shifted from balanced and nuanced coverage of a complex phenomenon that facilitated debates on the appropriate consequences of corruption to a selective (re)construction of events in order to serve partisan agendas when the company’s legal plight was politicized. By unveiling how the politicization of an organizational scandal led to a dual climate of opinion across the English and French Press, the study complements the paper by Dewan and Jensen to enhance our understanding of organizational scandals as socially constructed and processual in nature.

The Antecedents of Organizational Wrongdoing

The remaining six papers in this volume look at the antecedents of organizational wrongdoing. Prior research has already unveiled a multiplicity of antecedents at the individual, organizational, and field level (Gabbioneta et al., 2013, Muzio et al., 2016). The antecedents uncovered thus far, however, do not always fully explain some of the episodes of organizational wrongdoing as

reported by the media – prompting the need for more research that considers other, less explored, antecedents.

Roman, Naumovska, and Halebian examine a largely overlooked antecedent of organizational wrongdoing at the individual-level: the childhood social class of the CEO. Building on research in sociology and social psychology that demonstrates that childhood social class significantly impacts adult behavior, the Authors examine its influence as a predictor of white-collar corporate crime. They develop the argument that individuals raised in middle-class families have a greater disposition to commit white-collar crimes because growing up middle-class leaves a lasting status-anxiety imprint, which increases the tendency to engage in white-collar corporate crime to preserve or enhance social status. The Authors also hypothesize that two status-anxiety-minimizing factors – Ivy League education and membership in a prominent golf club – would weaken the effect of middle-class upbringing on corporate crime. The results of their study confirm their predictions, as they find that firms led by CEOs who grow up in middle-class families are more likely to engage in white-collar crimes compared to firms led by CEOs who grow up in low- and high-class families, and that Ivy League education and golf club membership negatively moderate the relationship between middle-class upbringing and white-collar crime. The results of this study contribute to research on the individual-level antecedents of organizational wrongdoing by providing evidence of the impact of a new, understudied cause of wrongdoing.

Coppins and Weststar examine the impact of two other important individual-level antecedents of organizational wrongdoing: identification with the organization and identification with the occupation. The Authors build on social identity theory to argue that individuals who strongly identify with an organization may engage in unethical behavior that benefits the organization, (i.e., they may engage in unethical pro-organizational behavior, hereafter UPB). A strong occupational identification, on the contrary, is expected to mitigate this desire and moderate the impact of organizational identification on UPB. Utilizing a sample of 236 accountants and financial professionals, the Authors find that organizational identification and occupational identification alone do not significantly predict UPB, but the interaction of these two types of identification does. Organizational identification significantly positively predicts UPB only when occupational identification is extremely low in strength. The results of this study, again, contribute to research on the individual-level antecedents of organizational wrongdoing.

Fey and Amis complement the above by looking at an organizational-level antecedent of wrongdoing: namely, the nature of intraorganizational boundaries. The Authors show how the ways in which boundaries became established in Volkswagen before the “Dieselgate” scandal resulted in an internal context that defined “in” and “out” groups, normalized certain behaviors, and limited communication across intraorganizational boundaries. This, in turn, allowed wrongdoing to not only become established but also to go unchallenged. These results suggest that a combination of cognitive, horizontal, and vertical boundaries can create an infrastructure of organizational design that permits organizational wrongdoing, prevents it from being challenged, and ultimately normalizes it in everyday

activities. The Authors, therefore, highlight intraorganizational boundaries as an important organizational-level antecedent of organizational wrongdoing.

Hensel and Makowski develop a multilevel framework to look at how employees of bureaucratic organizations strategically use references to complex bureaucratic procedures and routines to discourage clients from turning to these organizations for help or assistance. The Authors argue that this is a form of normalized organizational wrongdoing (Palmer, 2012), which is more likely to materialize within large organizations, where it is more difficult to monitor employees, and in organizations that use performance measurement systems. Other factors contributing to this form of wrongdoing are individual stress and burnout, job dissatisfaction, and individual-level traits – such as Machiavellianism, psychopathy, and narcissism – on the bureaucrats' side, and poor knowledge of the system and limited ability to communicate, on the clients' side. Collectively, these elements make employees of bureaucratic organizations more likely to discourage clients from turning to these organizations for help or assistance and contribute to the establishment and maintaining of a system in which those who are the most vulnerable and in need of the services are the least likely to apply for, and thus receive, them.

Andiappan and Dufour delve into the field-level antecedents of wrongdoing to explain how gender-based discrimination within an occupation can persist over time, despite changes in the nature of work and technological innovations that are intended to make the occupation increasingly accessible to women. Using data collected from 72 interviews with retired and active longshoremen and their employers, supplemented with archival and observational data, the Authors show that, although women were permitted into the longshore occupation at the beginning of their period of observation (1947 to the 1960s), they were subsequently and progressively completely excluded. Longshoremen rationalized this exclusion by strategically utilizing framing paradigms and self-serving justifications. These framing and justification strategies were consistently observed throughout the period of research, but the content of the strategies changed to reflect the work and technological changes taking place within the occupation. The results of this study highlight the importance of framing and justification for wrongdoing, but also show how persistent these are to changing environmental conditions.

Occupational wrongdoing is also the focus of the study by Bento, White, and Antonacopoulou. The Authors argue that the unresponsiveness of Internal Audit (IA) amid signs that fraud is arising and spreading within an organization can be explained by internal auditors' myopic interpretation of the three classic tenets of auditing (scope, compliance, and materiality). Although these tenets were initially created to prevent fraud from happening, their myopic interpretation may unwittingly enable fraud to go undetected for lengthy periods. By challenging one of the key assumptions within accounting research – i.e., that fraud is the result of the failed application of the classic tenets of audit – this study warns against oversimplified understandings of the antecedents of fraud and against the widespread – and to some extent reassuring – idea that the strict application of norms and rules can always prevent fraud from happening.