

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

RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS

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RESEARCH IN THE SOCIOLOGY OF
ORGANIZATIONS VOLUME 85

**ORGANIZATIONAL
WRONGDOING AS THE
“FOUNDATIONAL”
GRAND CHALLENGE:
CONSEQUENCES AND
IMPACT**

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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 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.

Professor Michael Lounsbury
Series Editor, *Research in the Sociology of Organizations*
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INTRODUCTION: ORGANIZATIONAL WRONGDOING AS THE “FOUNDATIONAL” GRAND CHALLENGE: CONSEQUENCES AND IMPACT

Claudia Gabbioneta, Marco Clemente and
Royston Greenwood

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 focuses in particular on the variegated consequences and impact of organizational wrongdoing.

**Organizational Wrongdoing as the “Foundational” Grand Challenge: Consequences and Impact
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Keywords: Organizational wrongdoing; misconduct; scandals; corruption; unethical behavior; grand challenge; social evaluation

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, forthcoming). 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 focuses in particular on the variegated consequences and impact of organizational wrongdoing, which we discuss below.

ORGANIZATIONAL WRONGDOING AS THE “FOUNDATIONAL” GRAND CHALLENGE: CONSEQUENCES AND IMPACT

This volume, *Organizational Wrongdoing as the “Foundational” Grand Challenge: Consequences and Impact*, includes seven papers and focuses on the consequences of organizational wrongdoing, and the role of whistleblowing. It also includes a methodology paper.

Remedial Actions After Organizational Wrongdoing

The first study in this volume examines the remedial actions that firms can take to recover from wrongdoing. Pozner, Mohliver, and Moore argue that organizational theory offers conflicting perspectives on whether new legislation will increase or decrease pressure on firms to take remedial action following misconduct. The dominant perspective posits that new legislation increases expectations, amplifying pressures to take remedial action. A more recent perspective, however, suggests that the mere expectation that a firm is required to meet more stringent regulatory requirements will influence relevant audiences to certify firms as legitimate. This certification effect, in other words, buffers firms, reducing the pressure to take remedial action after misconduct. Using a temporary, largely arbitrary exemption from a key provision of the Sarbanes-Oxley Act, the Authors find that firms that were *not* required to meet all the regulatory standards of good governance were 45% *more* likely to replace their CEOs following the announcement of an earnings restatement after Sarbanes-Oxley. On the other hand, firms that were required to meet all of the Sarbanes-Oxley’s provisions were 26% *less* likely to replace their CEOs. The Authors conclude that these results show some unexpected negative consequences of introducing new legislation as a means of curbing organizational wrongdoing.

Spillover Effects of Organizational Wrongdoing

The second and third papers in this volume focus more particularly on the so-called spillover effects of organizational wrongdoing, whereby “innocent” firms (bystanders) are affected by wrongdoings committed by other firms. This area of research has grown significantly in the last few years but produced mixed results. Whereas some studies provide evidence of negative spillover effects accruing to bystander firms (Barnett & King, 2008; Jonsson et al., 2009; Paruchuri &

Misangyi, 2015), other studies document positive spillover effects (Naumovska & Lavie, 2021; Paruchuri et al., 2019; Piazza & Jourdan, 2018). Moreover, while some studies have found spillover to be driven by *similarities* in product offerings, industry membership, or category membership (Jonsson et al., 2009; Naumovska & Lavie, 2021; Paruchuri et al., 2019), other studies have also considered the role that organizational *differences* can play (Paruchuri et al., 2019; Piazza & Jourdan, 2018). More research is needed to uncover when a positive or negative spillover is more likely to occur and to uncover the underlying mechanisms driving them.

Han, Pollock, and Paruchuri address both of these questions by drawing on attribution and expectancy violations theories. These Authors argue that a spillover’s valence (i.e., being positive or negative) depends on the locus of attributions made by stakeholders: isolated attribution – i.e., when the causes of the wrongdoing are attributed to the perpetrator alone – results in positive spillovers; in contrast, systemic attribution – i.e., when the wrongdoing’s causes are perceived as indicative of a systemic problem shared among a broader set of organizations – leads to negative spillovers. The Authors further maintain that the nature of the wrongdoing – whether it is a capability or integrity failure – and its prevalence within a perpetrator and other firms, influences the attributions of stakeholders, and ultimately the spillover’s valence. By theorizing when a positive vs. a negative spillover is more likely, and by moving the explanations of the mechanisms behind each of them beyond mere category membership, the Authors enhance our current understanding of spillover effects.

Wecker and Brauer also focus on spillover effects but examine more specifically whether the number of prior allegations against *other* firms has implications for a firm currently facing an allegation. Building on behavioral decision theory, the Authors argue that the relationship between allegation prevalence among other firms, and investor reaction to a focal allegation, is an inverted U-shaped arising from the combination of two effects. In the absence of prior allegations against other firms, investors fail to anticipate the focal allegation, and hence react particularly negatively (the “anticipation effect”). In the case of many prior allegations against other firms, investors also react particularly negatively because investors perceive the focal allegation as more warranted (the “evaluation effect”). Examination of 8,802 misconduct allegations against US firms between 2007 and 2017, provides support for the predicted, inverted U-shaped effect, and thus complements recent misconduct spillover research by highlighting that, not only can a current allegation against an individual firm “contaminate” other, unalleged firms, but, that prior allegations against other firms can “contaminate” an individual firm currently facing allegations.

Whistleblowing and Organizational Wrongdoing

The next three papers in this volume turn to the examination of whistleblowing. Whistleblowing – “the disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action” (Near & Miceli, 1985, p. 4) – has proved to be an effective way to unveil – and to some extent,

deter – organizational wrongdoing (e.g., Keenan, 2000). It is therefore important to examine the factors that may promote, or, on the contrary, hinder it.

Djawadi, Plaß, and Schäfers conduct a systematic review of the literature on internal whistleblowing and identify seven thematic clusters of “peer” factors that have been studied: peer involvement in wrongdoing and whistleblowing situations, allegiance to peers and to the organization, behavioral prescription by peers, relationship and experiences with peers, fear of consequences from peers, adverse perceptions that peers have concerning whistleblowers, and adverse actions that peers undertake against whistleblowers. Taken together, these factors offer researchers an informative overview of the peer factors that have been examined to influence the whistleblowing decision, and of the extent to which whistleblowers experience adverse consequences from peers in the aftermath of whistleblowing. This paper provides a useful rationalization and categorization of prior studies on internal whistleblowing.

Oelrich examines the factors that influence the whistleblowing decision by looking at the influence of the media. This paper builds on research on norm activation to develop a moderation-mediation model of whistleblowing that highlights how the media can convey social norms and influence whistleblowing intentions. Using a cross-national survey of employees from China, Germany, and Russia ($n = 1,159$), Oelrich hypothesizes and finds that media criticism of corruption and fraud directly influences employee attitudes toward corruption as well as the likelihood that they will blow the whistle. He also finds that media criticism reduces the negative influence of “corrupted” colleagues on the whistleblower’s attitude toward corruption, and the negative influence of their fear of retaliation on whistleblowing intentions. These results highlight the media’s impact on whistleblowing decisions and illuminate the factors that promote whistleblowing.

Munro and Kenny investigate the whistleblowing decision by looking at the relationship that whistleblowers build with activist social movements. The Authors argue that there is a clear relationship of mutual support between whistleblowing and activist social movements, both in the process of whistleblowing and in furthering the campaigns of the social movements themselves. Alliances with activist social movements can not only mitigate the effects of retaliation against whistleblowers, but can also provide more general support. In addition, whistleblower disclosures can be a vital resource for the work of activists by drawing public attention to widespread corruption and wrongdoing. Whistleblowers can even become activists and be drawn into the social movements. Several whistleblowers have positioned their reasons for blowing the whistle not simply as a matter of public interest, but more broadly as a social protest and civil disobedience. By theorizing the complex and mutual relationship between whistleblowers and activist social movements, the Authors identify another factor that can promote whistleblowing and increase the unveiling and/or deterring of wrongdoing.

Methodological Issues in Research on Organizational Wrongdoing

The last paper in this volume is a methodology paper, in which Nix and Decker demonstrate the valuable insights provided by historical approaches. The Authors draw on a range of practices from history and the social sciences to introduce

four historically informed approaches: narrative history, analytically structured history, historical process study, short-term process study. They differentiate these approaches based on their particular affordances and treatment of two key methodological considerations: historical evidence, and temporality. Narrative history makes critical use of social documents and narrative sources that originate from, or refer to, historical events, and it generally covers a long time period, following certain themes or actors through multiple historically relevant contexts. Analytically structured history relies on evidence based on historical norms and procedures, though source selection is guided by an interest in theoretical conceptualization rather than historical events, and focuses on events within a clearly specified period that is dictated by theoretical relevance. Historical process study uses historical sources as data but places this material in its historical context and is guided by an interest in long-term processes, often involving multiple stakeholders. Short-term process study uses contemporary secondary data from an event to reconstruct specific events and employs temporal distance to understand complex and fast-moving dynamics within specific event(s) and processes. By identifying these four historically informed approaches, the Authors point at the importance of history for the study of organizational wrongdoing and offer a valuable methodological roadmap for future research in this area.

FUTURE DIRECTIONS FOR RESEARCH ON ORGANIZATIONAL WRONGDOING

While significantly enhancing our understanding of organizational wrongdoing, the contributions in this volume highlight work that still needs to be done. Future research may further investigate the impact of legislative changes aimed at curbing organizational wrongdoing. Whereas the introduction of new regulation may have positive consequences in some areas, it may also produce unintended negative effects. The paper by Pozner, Mohliver, and Moore, for example, shows that firms subject to most stringent regulatory provisions become less likely to fire their CEO after announcing an earnings restatement than they were before the legislation was enacted, while firms exempt from the same provisions become more likely to replace their CEOs. Future research may look at other pieces of regulation aiming at preventing wrongdoing and examine the extent to which they may have similar unexpected negative consequences.

Another important yet insufficiently addressed question is if, and how, spillover effects are affected by social evaluations, such as status, reputation, celebrity, and stigma. Organizational and management scholars have long recognized social evaluations as an important factor shaping audiences' interpretation of, and reaction to, organizational misconduct, particularly because of their ability to provide audiences with cognitive heuristics that alleviate perceived uncertainty at the onset of misconduct (Bundy & Pfarrer, 2015; Chandler et al., 2020; Dewan & Jensen, 2020; Park & Rogan, 2019). However, they have not investigated how these evaluations may affect the attribution process theorized by Han, Pollock, and Paruchuri. Nor have we learned how social evaluations may influence the

expectancy violations by stakeholders. Future studies are needed to analyze how social evaluations combine with social attributions and misconduct valance in causing – or preventing – spillover effects.

Finally, future studies could take a closer look at the relationship between whistleblowing and activist social movements. Munro and Kenny highlight the benefits of a closer relationship between these two actors, but further research is needed to uncover the potential problems associated with this relationship. Is it possible that activist social movements could make instrumental use of whistleblowers, such that the latter see their role more as supporting social movements, than as reporting wrongdoing? Are whistleblowers, in other words, at risk of being “captured” by social movements? The relationship between whistleblowers and activist social movements deserves further examination.

CONCLUSIONS

This volume draws attention to organizational wrongdoing, which has acquired significant momentum in recent years as a consequence of the increase in the number of cases reported in the media. For us, understanding the processes of organizational wrongdoing is of great theoretical and empirical relevance – not least because wrongdoing might contribute to the decline and loss of institutional trust. We consider organizational wrongdoing as a “foundational” grand challenge that affects the ability of our society to solve other grand challenges and attain the Sustainable Development Goals. Our hope is that the breadth and depth of the contributions included in this volume will provide impetus to this area of research by inspiring more scholars to probe this fascinating and fundamentally important topic.

NOTES

1. <https://www.frc.org.uk/news/march-2021/investigation-into-deloitte-for-the-audits-of-look>; <https://www.insider.co.uk/news/deloitte-under-investigation-over-audits-23699445>.
2. <https://www.justice.gov/usao-sdny/pr/former-ceo-and-cfo-public-telecommunications-company-charged-manhattan-federal-court>; <https://www.cnn.com/2021/07/15/fte-networks-executives-charged-with-securities-fraud-conspiracy.html>
3. <https://www.sec.gov/enforce/33-10975-s>; <https://www.clearyenforcementwatch.com/2021/09/two-recent-settlements-highlight-heightened-sec-focus-on-accounting-fraud-and-potential-benefits-of-cooperation/>
4. <https://www.sec.gov/news/press-release/2021-174>; <https://www.justice.gov/opa/pr/former-chief-financial-officer-publicly-traded-company-sentenced-two-years-significant>.

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