

Cambridge Companion on Organizational Wrongdoing: Key  
Perspectives and New Directions

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## 1. The imbalances and limitations of theory and research on organizational wrongdoing

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This chapter introduces the reader of the *Cambridge Companion on Organizational Wrongdoing* to the contents of the volume, which explores the causes, processes, consequences and nature of wrongdoing in and by organizations. It begins by noting that Management theory and research on organizational wrongdoing historically has been characterized by uneven development and stagnation, but in recent years has enjoyed more broad based and sustained development. It then identifies seven imbalances or limitations of received management theory: 1) the dearth of theory and research on organizational wrongdoing, 2) the predominate use of the micro lens to understand the causes of misconduct, 3) the relative underdevelopment of meso and macro theory and research on the causes of organizational wrongdoing, 4) the predominate focus on the *causes* of misconduct, 5) the provincialism of theory and research organizational wrongdoing, 6), the uncritical treatment of the definition of organizational wrongdoing, and 7) the restricted derivation of practical implications from theory and research on organizational misconduct. It also outlines the ways recent scholarship is addressing these imbalances or limitations, and indicates how the chapters in this volume contribute to the renaissance of management scholarship on organizational misconduct.

## 2. On taking the theoretical substance of outcomes seriously: A meta-conversation

*Kristin Smith-Crowe and Teng Zhang*

We contend that the field of behavioral ethics in organizations, in large part, has not explicitly attended to the theoretical substance of outcome variables in studies of individuals' morally relevant judgments, decisions, and behaviors, and that we should do so. We review the recent literature, finding that in only a small percentage of recent articles is a conceptual definition of the moral domain provided and that the operationalizations employed are drawn from a narrow set, with the majority of studies focusing on cheating or lying. We also review relevant conversations on the theoretical substance of morally relevant outcome variables found largely outside of this literature. We present these conversations in the context of a meta-conversation, or a conversation about conversations in which we point to the potential fruitfulness of discussing the theoretical substance of our outcome variables, and the forms that such discussions might take. We conclude with suggestions of conversation topics to move the field forward with regard to the theoretical substance of outcomes.

## 3. Wrong Paths to Right: Defining Morality with or without a clear red line

*Ryann Manning and Michel Antebi*

The literature on organizational wrongdoing is extensive, but tends to assume that a clear red line divides the moral terrain. We know that organizational life is more complex. Many organizations function not as moral orders, but as moral pursuits in which right and wrong are not defined ex-ante and wrongdoing is relative, disputed, and dynamic. We use illustrations from field sites in which red lines proved either well-defined or elusive to theorize differences in forms of wrongdoing in moral orders versus moral pursuits. More specifically, we explore cases involving babies, bones, and brides in which organizational actors pursue actions that they consider moral, but that others in their setting consider wrongdoing. In the process, we identify two sets of wrongdoing: one involving moral hijacking, moral assembling, and moral working-around that occurs when individuals engage in a moral pursuit from within the context of moral order; and another set involving moral circumscribing, moral spotlighting, and moral seceding that occurs when individuals seek to establish moral order from within a moral pursuit. We develop this typology to better

understand the meanings of wrongdoing in moral orders versus moral pursuits, and the variety of wrong paths to right in organizations.

4. From market enablers to market participants: Redefining organizational and political-legal arrangements and opportunities for financial wrongdoing, 1930s-2000

*Harland Prechel and Dadao Hou*

The organizational-political economy framework elaborates how elites mobilized politically and used the corporations that they control to shape the mortgage-backed securities market. The historical analysis begins in the 1930s when the U.S. government created the first organization inside the state to facilitate economic growth by increasing capital flow to the housing sector. The paper examines subsequent incremental change in organizational and political-legal arrangements in which the mortgage-backed securities and other financial market were embedded. The analysis shows that by 2000 these financial markets were shifted to the disembedded end of the embedded-disembedded continuum. In addition to creating profit-making opportunities for corporate managers, this shift created opportunities for financial wrongdoing. Financial wrongdoing includes acts that violate (1) a law or the intent of a law established by government agencies responsible for ensuring the integrity of the financial system, and (2) the public's understanding of the business code of conduct that consumers use when making financial decisions.

5. Wrongdoing and market development: An examination of the distinct roles of trust and distrust

*Christopher B. Yenkey*

This chapter addresses an understudied aspect of organizational wrongdoing: victim responses to it. Specifically, I theorize the link between organizational misconduct and continued market participation and argue that individual victims will vary in their reactions to experiencing fraud as a function of the social context in which the fraud occurs, particularly their social relations to the perpetrator. In doing so, I distinguish the normative dimensions of trust from the instrumental dimensions of distrust in order to theorize victims' post-fraud changes in economic behavior separate from their moral outrage at having experienced it. I draw from social psychology, social capital, organization theory, and criminology to propose seven testable propositions about when market participants are more or less likely to change their market behavior after being victimized. These propositions predominantly focus on emerging financial markets situated in weak institutional environments where fraud and corruption are common events, but I also discuss ways that these influences are also likely to be present in developed markets.

6. Bad apples, bad barrels, and bad cellars: A 'boundaries' perspective on professional misconduct

*Daniel Muzio, James Falconbridge, Claudia Gabbioneta, and Royston Greenwood*

Professions have traditionally been associated with a public safeguard role, with their superior ethical standards usually invoked to justify their occupational privileges and special labour market position. As such professionals have been thought to act as 'social trustees' (Brint, 1994) of key skills for the benefit of society as a whole or as 'gatekeepers' (Coffee, 2006) who play a fundamental role in maintaining the integrity of broader institutions. Yet recent scandals from Enron, to Parmalat and the recent financial crisis call into question the fiduciary role played by the professions. Thus, rather than as gatekeepers and social trustees, professions may have acted, perhaps unwittingly, as accomplices if not masterminds in recent episodes of corporate wrongdoing and malpractice. This chapter focuses on the role of

professions in processes of malpractice and approaches this through the consideration of a number of key boundaries which frame professional practice. These include: 1) internal and external boundaries within and between professional services firms and the conflict of interests these may produce; 2) the national and regional boundaries which separate jurisdictions with different standards of professional practice and regulatory oversight; and 3) the deontological boundaries separating professional advisers from other stakeholders such as clients and increasingly financial investors, and the capture dynamics which may be at play here. Drawing on a number of examples from accountancy, law and financial professions we show how changing professional boundaries generate a series of tensions, conflicts and opportunities or temptations which undermine the professions gatekeeping role and facilitates their involvement in various forms of wrongdoing.

#### 7. S/he blinded me with science: The sociology of scientific misconduct

*James N. Baron, Marissa D. King, and Olav Sorenson*

In this paper we draw on our ongoing work examining misconduct in scientific research to identify factors at the interpersonal, organizational, and institutional levels that encourage and inhibit organizational wrongdoing. We argue that the study of scientific misconduct can enrich our understanding of organizational wrongdoing in other contexts.

#### 8. Social networks and organizational wrongdoing in context

*Donald Palmer and Celia Moore*

Theory and research on social networks has a long tradition in sociology, social psychology, and anthropology and an increasing presence in organizational studies. In this chapter, we critically review the embryonic but growing body of social network theory and research on misconduct in and by organizations. We structure our review around the three main areas of prior research: the role of social networks in the initiation, evolution, and consequences of wrongdoing. We use Brass, Butterfield, and Skaggs' (1998) seminal theoretical analysis of the role that social networks play in unethical behavior as the starting point for our review, which reaffirms, extends, and in some cases suggests modifications to their arguments. We tap a range of empirical studies on social networks and organizational misconduct, most importantly a series of investigations by Baker, Faulkner and associates (Baker and Faulkner 1993, 2003, 2004; Faulkner and Cheney 2014; Faulkner et al. 2003) to flesh out our discussion. We conclude that a comprehensive understanding of the role of social networks in wrongdoing in and by organizations hinges on several contextual factors that social network analyses sometimes overlook in the drive to use the patterns of relationships among wrongdoers and their victims as the dominant explanatory device. We conclude by offering several lines of inquiry that social network analysts might explore in connection with organizational wrongdoing in the future.

#### 9. Falling Stars: Celebrity, infamy, and the fall from (and return to) grace

*Timothy G. Pollock, Yuri Mishina, and Yeonji Seo*

Celebrity firms are those that attract a high level of public attention and generate positive affective responses from various stakeholder groups. While recent studies have explored the causes and consequences of firm celebrity, little research has considered how firms become infamous, and the role wrongdoing plays in the process. By drawing on theories from the wrongdoing literature and arguing how wrongdoing is both relativistic and socially constructed, we develop a typology of different types of celebrity and infamy that are categorized according to the audiences that celebrities address. Moreover, we explore how and why these celebrity firms may engage in wrongdoing by changing their behaviors, but

also how changing norms can increase a firm's infamy and/or diminish its celebrity. We further discuss how an infamous firm that fall from grace may reform itself and regain lost celebrity.

10. Compensation and employee misconduct: The inseparability of productive and counterproductive behaviour in firms

*Ian Larkin and Lamar Pierce*

Compensation systems play a fundamental role in organizations, motivating employee effort and attracting and retaining those with the ability and skills necessary for firm productivity and performance. Although the financial and other extrinsic incentives built into compensation systems are powerful tools for improving productivity, they can generate perverse economic incentives as well as psychological and social responses that motivate a wide class of counterproductive behaviors ranging from lack of cooperation to explicitly illegal misconduct. This chapter illuminates the holistic implications of multiple classes of compensation systems for employee productivity and misconduct, focusing on the behavioral responses of non-executive workers and their implications for firm performance. We argue the effects of compensation on both productivity and misconduct tend to go in the same direction. Systems that encourage effort frequently motivate wrongdoing. We explain that managers typically focus on only one dimension, and thereby ignore the broader costs of the compensation system. The important implication is that the optimal level of misconduct is rarely zero, with the best compensation systems acknowledging the tradeoff between productivity and ethics.

11. Beware of organizational saints: How a moral self-concept may foster immoral behaviour

*Blake Ashforth and Donald Lange*

The negative effects to society of organizational sinners, be they “bad apple” individuals or “bad barrel” organizations, are known and understood. But what about organizational saints, meaning individuals and organizations that have a moral self-concept? We discuss various processes through which a moral self-concept may, paradoxically, lead to immoral behavior. Specifically, a moral self-concept may foster antipathy toward and conflict with others, lead to an unrealistic absolutist stance, encourage burnout, license less moral behavior, and foster mindlessness and moral drift. Further, efforts to protect and reinforce a moral self-concept may lead to counterintentional effects. Finally, a self-concept may become sacralized, prompting behavior that others regard as immoral. Each of these processes can emerge at the individual or collective level of analysis and spread throughout the organization. We conclude that the overarching theme of these processes is identity extremism and exclusivity, that is, that a moral self-concept becomes problematic when it is taken by the actor to be an end in itself (extremism) and becomes so central to the definition of self that it renders other identities less salient (exclusivity). A moral self-concept, like any identity, is inherently myopic and thus needs to be complemented by multiple identities.

12. “Is it me? Or is it me?” The role of co-activated multiple identities and identifications in promoting or discouraging workplace crimes

*Abhijeet K. Vadera and Michael G. Pratt*

Recent research has argued that when people view themselves in terms of their organization (i.e., have a social-organizational identity), they are more prone to commit workplace crimes. However, people bring and deploy other work (e.g., professional) and non-work (e.g., religious, kinship) identities in the workplace. Our paper explores how the coactivation of these multiple identities influences the propensity to engage in workplace crime.

13. Consequences of organizational misconduct: Too much and too little punishment

*Henrich R. Greve and Daphne Teh*

The revelation of organizational misconduct starts a process of responses that often has negative consequences for the responsible organization, as well as for other organizations in its environment. We consider current research on such punishment of misconduct, with a dual focus on examining the research conducted so far and pointing toward new opportunities. Misconduct punishment can be classified according to the theoretical perspective used, the punishment scope examined, choice of organization to punish, and organizational reactions to punishment. These categories of research are interdependent because each theory has specific predictions on scope and choice, and may also differ in the predicted reactions. The evidence so far points clearly toward punishment forms that are less targeted than an economically rational perspective or even the term “punishment” suggests, supporting theoretical perspectives that consider alternative goals and logics of action. Institutional theory and social identity theory offer alternative accounts for the observed misconduct.

14. Who bears the brunt? A review and research agenda for the consequences of organizational wrongdoing for individuals

*Jo-Ellen Pozner and Jared D. Harris*

An important yet overlooked aspect of the growing body of literature on organizational misconduct is the impact of wrongdoing for individuals associated with the firm. We review the accumulated knowledge on such consequences, which focuses on the short-term penalties that accrue primarily to individuals at the helm of misconduct organizations, and who are either directly involved or indirectly associated with the wrongdoing. The extant literature generally reflects two broad theoretical accounts: one based on economic signaling, the other based on institutional symbolism. After summarizing and synthesizing this research, we lay out a research agenda by identifying two areas ripe for future research attention: long-term consequences for executives and directors of misconduct firms, and the impact of misconduct on the organizational rank and file. We identify four key research questions in each area and offer suggestions on how these questions might be pursued.

15. Organizational wrongdoing and media bias

*Marco Clemente, Rudolphe Durand, and Joseph Porac*

Media play a dual role in the context of organizational wrongdoing. Media reveal and label (organizational) actions as misconduct, while serving as intermediaries, which collect, interpret and diffuse information to multiple audiences. Publicly exposed transgressions trigger scandals, with severe consequences for involved actors. As scandals develop, media help discover transgressions, direct attention towards them and, eventually, levy social sanctions against actors. Although organizational theorists generally have a benign view of media as a dispassionate filter of information and as neutral arbiter of events, the media also have a tendency to bias their reports and do not always report facts and events neutrally. In this chapter, we review the literature intersecting organizational wrongdoing and media bias. We propose an integrated framework that links scandalous transgressions to media bias research. We illustrate the framework by looking at how newspapers covered “Calciopoli”, the huge 2006 Italian football scandal.

## 16. Ethical learning: Releasing the moral unicorn

*Dolly Chugh and Mary C. Kern*

The reality of bounded ethicality is that ethical perfection is psychologically infeasible, resulting in a gap between one's ethical self-view and one's actual behavior. We offer a framework for addressing this gap and improving ethical behavior. Integrating research about ethical decision-making with research about the self, we argue that self-threat is a pervasive obstacle to improving ethical behavior, particularly in organizational environments. We introduce the concept of ethical learning, defined as the active engagement in efforts to close the gap between one's self-view and one's actual behavior. We define ethical learners as those engaged in closing this gap, who tend to possess a central moral identity (they care about being ethical), psychological literacy (an awareness that a gap exists), and a growth mindset (the belief that purposeful effort can improve ethical behavior). We also describe an important team-level condition for translating ethical learning into improvements in ethical behavior: psychological safety (the belief that the team is a safe place for learning from failure). Our framework of ethical learning provides both individuals and organizations with a new approach to addressing bounded ethicality and improving ethical behavior.