

1 *The imbalances and limitations of theory and research on organizational wrongdoing*

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This volume is devoted to exploring the causes, processes, consequences, and nature of wrongdoing in and by organizations. Such conduct, hereafter for convenience referred to as *organizational misconduct* and *organizational wrongdoing*, includes a wide range of behaviors – violations of criminal, civil, and administrative law; transgressions of explicit industry and professional codes; and contraventions of less codified organizational rules, social norms, and ethical principles. Given their apparent greater incidence and scale in recent years, it is not surprising that these behaviors have received increasing attention in scholarly circles, in practitioner communities, and among the general public as of late. Moreover, and contrary to previous work, recent scholarship has adopted a range of perspectives and elaborated its focus and concerns to include aspects of wrongdoing previously ignored. This introduction outlines how recent scholarship contributes to the renaissance of management scholarship on organizational misconduct.

The dearth of theory and research on organizational wrongdoing

Kenneth Boulding (1958), in his review of the first two volumes of *Administrative Science Quarterly*, identified the study of misconduct in and by organizations as an object of inquiry that was of enduring importance to management practitioners and society but that was receiving scant attention from the journal's contributors. Since Boulding's early assessment, other observers have periodically lamented management scholars' neglect of organizational misconduct relative to other topics of apparently greater interest, such as organizational efficiency

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and effectiveness (Brief 2000; Hinings and Greenwood 1982). This lack of attention to misconduct in and by organizations implicitly conveys the assumption that organizational wrongdoing is rare and peripheral to organizational functioning.

At the dawn of the new century, though, a series of episodes of organizational wrongdoing received massive media attention, including incidents at Enron, Arthur Andersen, Tyco, and WorldCom in the United States, Barclays Bank in the United Kingdom, Parmalat in Italy, Satyam in India, as well as incidents of misconduct at a large number of multi-national financial institutions implicated in the recent global financial crisis and in international governance organizations such as the world soccer Fédération Internationale de Football Association (FIFA). These affairs likely received extensive media attention partly because new forms of media (most importantly, forms of media made possible by the expansion of the Internet) were emerging that facilitated the dissemination and amplification of news about misconduct. Regardless, the attention these episodes received contributed to the perception that organizational misconduct is increasing in frequency, scale, and complexity, suggesting systemic causes and precipitating catastrophic consequences.

In the wake of these scandals, psychologists began to explore the ways in which human cognition is structured so as to make errors in ethical decision-making perhaps inevitable (Chugh, Banaji, and Bazerman 2005). At the same time, management theorists drawing on sociological insights began to focus on how wrongdoing can become “normalized” in organizations (Ashforth et al. 2004; Brief et al. 2001; Vaughan 1996). Reflecting these developments, some management theorists began to conceptualize organizational wrongdoing more generally as a normal phenomenon (cf. Palmer 2013). Viewing organizational wrongdoing in and by organizations as a normal phenomenon implies not only that misconduct is frequent but also that it is associated with the same processes that give rise to right-doing (e.g., human cognition and efficient and effective organizational processes).

The theme that wrongdoing is a normal phenomenon is picked up in this volume most obviously by Larkin and Pierce (Chapter 10) in their analysis of compensation systems. They maintain that even the most well-conceived compensation systems are likely to simultaneously facilitate the performance of efficient, inefficient, and even wrongful behavior. It is also evident in Ashforth and Lange’s (Chapter 11)

analysis of organizational saints, which argues that individuals and organizations with strong moral self-concepts will tend to both exhibit superior moral behavior and be susceptible to ethical lapses. In addition, it is reflected in Vadera and Pratt's (Chapter 12) assertion that employees' over-identification with an organization's mission can both advance its mission and facilitate misconduct on its behalf. It is further evident in Pollock, Mishina, and Seo's (Chapter 9) observation that firm celebrity and infamy are in the eyes of the beholder and that nonconformity can be seen in a positive or negative light. It is also evident in Muzio, Faulconbridge, Gabbioneta, and Greenwood's (Chapter 6) analysis of professional service firms that shows how misconduct can be inadvertently accepted because of embedded professional norms. Interestingly, though these examples span levels of analysis, for the most part organizational wrongdoing has often been considered from a micro perspective – the emphasis has been upon individual behavior, reflecting an implicit assumption that it is individuals rather than organizations that are motivated to act inappropriately. We discuss this literature next.

The predominant use of the micro lens to understand the causes of misconduct

Psychologists and those approaching the study of organizations from a psychological perspective were the first to pursue the subject of organizational wrongdoing in a sustained fashion. Their work, which appeared as early as the 1970s, tended to assume that organizational participants are rational and explored why people chose to engage in unethical or ethical behavior (e.g., Jones 1991). They focused on three factors: the attributes of the decision-maker (e.g., their gender or cognitive moral development), the nature of the ethical dilemma (e.g., its moral intensity), and the character of the decision context (e.g., its embeddedness in strong governance and cultural restraints). More recent years have seen a shift in thinking, with psychologists considering how inherent human cognitive processes put all organizational participants at risk of perpetrating unethical behavior. This later work explicitly assumes that people's rationality is bounded and explores the universal biases and framing effects that compromise all individuals' attempts to behave ethically, regardless of personal

characteristics, decision attributes, or decision contexts (Bazerman and Tenbrunsel 2011).

This individual-level research, which was given a boost by the highly publicized business scandals mentioned above, has generated a large corpus of findings that enhance our understanding of wrongdoing (for reviews, see Treviño, Weaver, and Reynolds 2006; Tenbrunsel and Smith-Crowe 2008; Treviño, den Nieuwenboer, and Kish-Gephart 2014). This research is represented in this volume by Chugh and Kern's (Chapter 16) analysis of the factors that facilitate ethical learning in organizations. It is also represented in Smith-Crowe and Zhang's (Chapter 2) discussion of the outcomes studied by ethical decision-making scholars and the opportunities for expanding the range of outcomes considered. However, this research, as with micro work more generally, has been criticized for failing to pay sufficient attention to the organizational context (Brief and Smith-Crowe 2015; Porter 1996; Staw in press) and the wider institutional context (Gabbioneta et al. 2013). The psychological perspective fails to take into account the collective character of much misconduct in and by organizations – that is, the fact that much organizational wrongdoing involves multiple interacting individuals, situated within a larger social context.

Theory and research advanced from the meso and macro levels are well positioned to fill this gap in our understanding of wrongdoing in and by organizations. By their very nature they provide ways to conceptualize and parameterize the small-group, organizational, and institutional contexts in which misconduct often occurs. As a result, meso and macro perspectives are enjoying increased attention. Indicative of this trend, misconduct in and by organizations is increasingly referred to as *corruption*, to telegraph the degree to which it is a group- and organizational- as opposed to an individual-level phenomenon. To date, though, the full promise of the meso and macro vantage points is yet to be realized. We discuss the nature of this deficit next.

The relative underdevelopment of meso and macro theory and research on the causes of organizational wrongdoing

Although meso and macro theory and research possess the promise to expand our understanding of misconduct in and by organizations, and for this reason are enjoying increased vitality, research to date has been largely restricted to two theoretical approaches. The first approach

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focuses on the ways economic incentives and opportunities can motivate misconduct (Becker 1968) – specifically the extent to which governance regimes fail to detect misconduct and swiftly and significantly punish it when detected (Fama 1980). The second approach focuses on sociological incentives and opportunities that can motivate misconduct and on the cultural prescriptions that can endorse it. Some of this work holds that organizational actors pursue misconduct when they experience performance strain – that is, when performance aspirations cannot be reached (Simpson 1986; Staw and Sz wajkowski 1975). Some holds that organizational actors pursue misconduct when their cultural environments endorse wrongdoing (Sims and Brinkmann 2003). These two approaches are frequently presented in tandem, as exemplified by McKendall and Wagner’s (1997) often cited study of financial fraud.¹

Without a doubt, economic theory provides fundamental insights about the causes of misconduct. Larkin and Pierce’s (Chapter 10) analysis of the way compensation systems can motivate wrongdoing represents a direct extension of this line of inquiry. Similarly, theory about performance strain and culture provide crucial insights about the causes of organizational wrongdoing as well. But, recently management scholars have begun to draw on other meso and macro theories to develop an enhanced understanding of the causes of misconduct. Institutional theory (Gabionetta et al. 2013), political economy (Prechel and Morris 2010), social network analysis (Palmer and Yenkey 2015), status and reputation approaches (Mishina et al. 2010), social interaction perspectives (Ashforth and Anand 2003), and organizational identification theory (Vadera and Pratt 2013) are just a few of the alternative meso and macro perspectives that have been exploited to develop a deeper understanding of the causes of organizational wrongdoing in recent years.

A glance at the table of contents of this volume will reveal how this expanded meso and macro theoretical focus is manifest in this volume. Prechel and Hou (Chapter 4) use the political economy lens to provide a chronological account of how the complexity of legislative changes and regulatory shifts arising from corporate lobbying have given rise to

¹ This formulation has so dominated the literature on accounting and financial fraud, that it has been adopted by the American Society of Fraud Examiners (ASFE) as the definitive explanation of fraud, known as the “fraud triangle” (the corners of which are motivation, opportunity, and rationalization).

“structural holes” that provide opportunities for financial wrongdoing. Yenkey draws on some of this work to examine stockbroker fraud in Kenya (Chapter 5). Muzio, Faulconbridge, Gabbioneta, and Greenwood draw on institutional theory as it has been applied to the professions to explore the causes of misconduct in professional service firms (Chapter 6). Baron, King, and Sorenson (Chapter 7), drawing on multiple meso- and macro-level theories, analyze the causes of scientific misconduct, a form of organizational wrongdoing of paramount importance to our field, but which has so far almost completely been overlooked by management scholars (see Furman, Jensen, and Murray [2012] for a rare exception). Palmer and Moore (Chapter 8) critically review research on the way in which social networks can facilitate organizational misconduct. Pollock, Mishina, and Seo (Chapter 9) extend their work on celebrity firms to explore how high-profile firms can fall from grace. Finally, Vadera and Pratt (Chapter 12) extend their analysis of how organizational identification and disidentification can give rise to misconduct by drawing on role theory to explore how the occupancy of multiple roles can mitigate tendencies to engage in organizational crime.

The predominant focus on the *causes* of misconduct

Traditionally, theory and research on wrongdoing in and by organizations, whether pursued from a micro, meso, or macro vantage point, have focused on the *causes* of organizational misconduct (e.g., Kish-Gephart, Harrison, and Treviño 2010). Further, most of this work has focused on the *initiation* of misconduct, the factors that cause organizational participants or organizations to embark on a wrongful course of action. Such a focus implicitly treats the proliferation, evolution, and maintenance of misconduct as unproblematic. There is some older research on the consequences of misconduct, but the vast majority of this work focuses exclusively on the legal and stock market penalties to which detected wrongdoers are exposed. As such, it ignores the wide range of noneconomic consequences to which detected perpetrators (and those to whom they are related) can be exposed.

Recently, research has expanded beyond this traditional focus (Greve, Palmer, and Pozner 2010). Some theorists have offered process theories of corruption, which analyze how misconduct diffuses and proliferates among individuals within organizations (Ashforth and

Anand 2003; Brief et al. 2001; Palmer 2008; Smith-Crowe and Warren 2014). Others have explored how misconduct diffuses and proliferates within organizations and among organizations in a field (Baker and Faulkner 2003; Gabbioneta et al. 2013; Mohliver 2012). Further, a handful of researchers have begun to explore the structure and impact of misconduct (Baker and Faulkner 1993, 2004), as well as the non-economic penalties suffered not only by wrongdoers but by those individuals and organizations related in some way to them (Jonsson, Greve, and Fujiwara-Greve 2009; Pozner 2008). Coming from a fundamentally different angle, but also focused on the consequences of morally relevant behavior, psychologists have considered the potentially negative effects stemming from *moral* behavior. Research on moral licensing (see Mullen and Monin [in press] for a review) suggests that an individual's moral behavior may actually license subsequent immoral behavior. This paradoxical consequence can happen either because the individual banked moral credits that can be subsequently spent or because the initial behavior provides the person with a moral credential, influencing his or her perception such that subsequent actions are seen in a more moral light.

This expanded substantive focus is evident in the chapters included in this volume, most obviously in Greve and Teh's (Chapter 13) analysis of the consequences that can befall organizations discovered to have engaged in misconduct, Pozner and Harris's (Chapter 14) analysis of the consequences that can befall individuals associated with delinquent organizations, and Ashforth and Lange's (Chapter 11) analysis of the moral pitfalls of individuals having a moral self-concept. But it is also evident in Palmer and Moore's (Chapter 8) discussion of social network explanations of misconduct, Yenkey's (Chapter 5) pointed analysis of victims' reactions to stockbroker fraud in Kenya, and Vadera and Pratt's (Chapter 12) consideration of the dark side of organizational identification.

The provincialism of theory and research on organizational wrongdoing

Management scholars periodically lament that the bulk of theory and research in our field is produced by scholars located in developed societies, especially North America and more narrowly the United

States, and that it focuses on people and organizations located in these societies (cf. Graham et al. 2011). As Palmer (2006: 550) noted,

Boulding (1958) contended that the first two volumes of *ASQ* did not pay sufficient attention to organizations located outside the U.S. Forty years later, Hickson (1996) summarized research by Usdiken and Pasadeos (1995) showing that organizational scholarship was more developed in North America than elsewhere and that while organization scholars in other parts of the world frequently cited their colleagues in North America, the reverse did not often happen . . . Augier, March, and Sullivan (2005) later provided a brief history of the evolution of organization studies in Anglophone North America, suggesting that, to all extents and purposes, this history was coterminous with the development of the field as a whole.

Moreover, broader disciplinary work is similarly limited. For instance, Henrich, Heine, and Norenzayan (2010) argued that research on WEIRD people (those who are Western, educated, industrialized, rich, and democratic) is not sufficiently generalizable to be a basis for an understanding of human psychology. They claim that this population is in fact weird – that these are “some of the most psychologically unusual people on Earth” (29).

Some headway has been made toward addressing these biases. For example, the journal *Organization Studies* was founded in 1980 with the explicit intention of providing a home for research conducted by non-North American scholars focused on non-North American organizations. Further, *Management and Organization Review* was established in 2005 to provide similar opportunities for scholars located in and focused on the Chinese context. Moreover, there has been an explicit attempt to internationalize the editorial boards of several of the more prestigious management journals in order to make them more receptive to non-US scholarship. The list of “best papers” for these journals indicates the recent success of this strategy (Greenwood, 2016).

Our volume continues this effort. It includes contributions from authors hailing from the United Kingdom (Celia Moore, Yuri Mishina, James Faulconbridge, and Daniel Muzio), France (Rudy Durand), Italy (Claudia Gabionetta and Marco Clemente), and Singapore (Henrich Greve, Daphne Teh, and Abhijeet Vadera). Further, it includes contributions that focus on people and organizations around the globe. Yenkey’s (Chapter 5) focus is on financial fraud

in Kenya, while Clemente, Durand, and Porac's (Chapter 15) focus is on misconduct in Italian soccer. Both Muzio, Faulconbridge, Gabbioneta, and Greenwood's (Chapter 6) analysis of misconduct in professional firms and Greve and Teh's (Chapter 13) analysis of the consequences of misconduct consider examples of misconduct from around the globe. Finally, Manning and Anteby (Chapter 3) rely on examples of paralegals and nurses in West African nations who struggle to justify the line between right and wrong.

The uncritical treatment of the definition of organizational wrongdoing

Traditionally, in the meso and macro literatures, management scholars have considered the definition of wrongdoing to be unproblematic. In the micro literature, definitions are rarely given, though when they do appear, they are consistent with those found in the macro and meso literatures, where misconduct is defined in highly general terms, such as the violation of ethical principles, social norms, administrative rules, or civil and criminal law. In this respect, wrongdoing is generally operationalized as behaviors that authors assume readers will accept as fitting these broad definitions and that will be uncontroversial.

In the case of micro studies, researchers analyze lying, cheating, and the inequitable allocation of communal resources. In the case of meso studies, researchers analyze uncooperative and aggressive behavior. In the case of macro studies, researchers analyze legal indictments and prosecutions for financial fraud, environmental pollution, and other crimes.

This approach overlooks an important component of wrongdoing recognized by the classic sociologist Emile Durkheim and his intellectual descendants (Becker 1963; Black 1998) – that in order for a behavior to constitute wrongdoing and for a perpetrator to assume the status of wrongdoer, another actor must label the behavior and perpetrator as such. The implication of this insight is that in order to understand the causes of misconduct, one must understand not only the behavior of those who perpetrate behavior considered wrongful but also the behavior of those who seek to label behavior as “wrongful” (Palmer 2013, Chapter 11). To be fair, some macro scholars recognize this fact. But most who do primarily view it from a methodological standpoint – that is, as leading to the underestimation or biased measurement of wrongdoing

in a population or sample that can only be overcome through the use of sophisticated measurement techniques (cf. Prechel and Morris 2010; Palmer and Yenkey 2015). It is only very recently that some management scholars have begun to theorize and study the process by which behaviors and perpetrators are labeled as “wrongdoing” and “wrongdoers” (Graffin et al. 2013).

The sociological view of wrongdoing can be contrasted with a more psychologically grounded view, which considers the evolutionary basis and innateness of human moral capacity. For instance, Bloom (2013) argues that we are born with a sense of right and wrong and with a capacity for compassion and empathy, though certainly we do not arrive as fully formed moral beings. His argument is built to some extent on evidence from other fields showing commonalities across cultures and species, but he focuses largely on evidence from developmental psychology, including three-month-olds preferring good puppets to bad puppets and one-year-olds punishing bad puppets. This innateness perspective is evident in the influential moral foundations theory (Graham et al. 2011), which holds that humans subscribe to at least five moral foundations, each connected to an evolution-based origin story. Theoretically, this perspective raises important questions, including the extent to which our sense of right and wrong is malleable versus entrenched and which aspects of the moral domain might be more hardwired and what might be more learned.

Several of the chapters included in this volume contribute to a more critical consideration of the definitional problem. Manning and Anteby (Chapter 3) approach the issue from a micro perspective, examining how organizational participants establish the line between acceptable and unacceptable moral behavior in the places where they work. Smith-Crowe and Zhang (Chapter 2) recognize a burgeoning conversation in the micro literature on the constructed definition of wrongdoing, focusing on examples of more developed conversations from elsewhere (such as that on moral foundations theory) to suggest both how the conversation could be carried forward and why micro scholars should care whether it is. Clemente, Durand, and Porac (Chapter 15) approach the issue from a macro perspective, examining the role that the media plays in scandalizing behavior that it considers wrongful and, in so doing, activates more formally constituted social control agents to suppress the behavior.