

**Misconduct and the Media: Organizational Sensegiving, Media Coverage,  
and Investor Reaction in the Aftermath of Wrongdoing**

by

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## ABSTRACT

Scholars are increasingly exploring organizational misconduct and have sought to explain when and why consequences following the revelation of wrongdoing are disparate between firms. While some explore firm characteristics that might explain differences in firm outcomes following misconduct, a more recent line of inquiry asks how firms can actively manage their consequences in the aftermath of wrongdoing. Drawing from the sensemaking and sensegiving literatures, this study explores a model of organizational misconduct that describes how media response (and ultimately shareholder reaction) is a function of what the firm *says* (i.e., explanatory framing), what it *does* (i.e., corrective action), and who it *is* (i.e., firm status). I test my ideas on a sample of firms that announced a material financial restatement between 1997 and 2012 utilizing archival data and content analysis techniques. Results provide some evidence that firms can influence external constituents' reactions to their misconduct through explanatory framing and corrective action. Interestingly, however, I find that unique external observers (i.e., the media and investors) respond differently to firms' sensegiving efforts. Additionally, results suggest that media tenor and media attention, together, can influence investor reaction. I discuss the complete results of this study and their implications for development of the misconduct and sensemaking literatures as well as research on restoring relationships with external constituents following misconduct.

## **DEDICATION**

I dedicate this project, and every one before and after it, to Mark, Annabelle, and Hattie Rose. Mark, you support me in every way possible. I thank you. Annabelle and Hattie Rose, you prayed for Mommy's dissertation at the dinner table before I think you understood what it meant. Thank you for allowing me time and extending your patience. We did it.

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## **CHAPTER I: INTRODUCTION**

Much of the strategic management literature about organizational misconduct and subsequent punishment suggests that if an organization engages in wrongdoing it will be caught and punished (Frooman, 1997; Greve, Palmer, & Pozner, 2010). Punishment associated with misconduct may include intangible factors, such as social disapproval (Devers, Dewett, Mishina, & Belsito, 2009), but is often measured by shareholder reaction (Barber & Darrough, 1996; Karpoff, Lee, & Martin, 2008; Karpoff & Lott Jr, 1993). However, the capital market consequences associated with wrongdoing, even for the same type of misconduct, are inconsistent across firms. Some research indicates differences between firms, such as firm size, network connectedness, and reputation, may predict the extent to which firms incur consequences for their misbehavior (Alexander, 1999; Karpoff, Lee, & Vondryk, 1999; Wiesenfeld, Wurthmann, & Hambrick, 2008). A more recent line of study explores how differences in the consequences associated with wrongdoing may be a function of the manner in which the firm actively manages external evaluations of the event (Mishina, Block, & Mannor, 2011; Pfarrer, Decelles, Smith, & Taylor, 2008a; Zavyalova, Pfarrer, Reger, & Shapiro, 2012). This stream of research provides footing for additional theorizing to fill a gap in the current literature about how

external observers make sense of various cues<sup>1</sup> advanced by the firm in the aftermath of misconduct (Barnett, Forthcoming; Wiesenfeld et al., 2008).

As firms release information with a view toward managing the message of their misconduct, information intermediaries play an important role in how shareholders receive and understand that information. One such intermediary, the media, has gained the attention of management scholars in recent years (Bednar, 2012; Deephouse, 2000; Desai, 2011).<sup>2</sup> By choosing which firms and stories to cover, as well as how to cover them, the media can influence public opinion and stakeholders' willingness to enter exchange relationships (Deephouse & Heugens, 2009; Pfarrer, Pollock, & Rindova, 2010; Pollock & Rindova, 2003). Beyond bringing attention to certain firms and their activities via media coverage, research indicates that a positive media reputation can be an asset to firms while a poor media reputation can be detrimental to firm goals (Deephouse, 2000). Following misconduct, in particular, scholars theorize that the media can play a role in the consequences incurred by the firm by imposing public scrutiny and forming visible evaluations of the firm (i.e., approval or disapproval) (Greve et al., 2010). Consequently, some have recently begun to investigate how firms can manage the media once wrongdoing becomes public (Zavyalova et al., 2012). Extending this line of study, I

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<sup>1</sup> A cue is something evaluators consider to be potentially informative and may include observations of organizational actions, statements, characteristics, and outcomes (Mishina, Block, & Mannor, 2011). Firms can directly manipulate cues to provide information regarding organizational qualities (Highhouse, Brooks, & Gregarus, 2009).

<sup>2</sup> The term "information intermediary" encompasses such entities as the business press, financial analysts, consumer groups, regulatory agencies, and industry experts (Deephouse, 2000; Desai, 2011; Pollock & Rindova, 2003; Zuckerman, 1999). One type of information intermediary is "the media," which is represented in newspaper articles (Bednar, 2012), trade journals (Vergne, forthcoming), and blogs (Zavyalova et al., 2012). The media is, of course, comprised of individual writers (Deephouse, 2000: 1095), which I alternately refer to as "journalists" (Bednar, Bovie, & Prince, 2012: 132) or "members of the media" (King, 1999: 315).

develop a model of organizational misconduct that describes how media response (and ultimately shareholder reaction) is a function of what the firm *says* (i.e., explanatory framing), what it *does* (i.e., corrective action), and who it *is* (i.e., firm status).

In this dissertation, I define corporate misconduct as firm behaviors that place a firm's shareholders at risk and violate shareholders' expectations of societal norms and general standards of conduct (Zavyalova et al., 2012: 1080). This type of behavior runs counter to expectations of "normal" or "appropriate" firm behavior and creates a discrepancy that attracts attention (Burgoon, 1993; Floyd et al., 1999; Pfarrer et al., 2010). When a firm engages in wrongdoing it creates cognitive dissonance in the minds of its external evaluators, like the media, and introduces a level of uncertainty about the future of the firm. As such, the media search for new information about the firm and the reasons for their misconduct that they might use to recalibrate their evaluations of it (Greve et al., 2010; Weick, Sutcliffe, & Obstfeld, 2005). In this search for information in the aftermath of wrongdoing, journalists likely rely, in part, on cues provided by the firm itself (Ashforth & Humphrey, 1995; Maitlis & Sonenshein, 2010).

What a firm says in the wake of misconduct constitutes a form of "sensegiving" (Gioia & Chittipeddi, 1991). Through sensegiving, firms attempt to influence journalists' "sensemaking" processes or the meaning they construct and associate with the misconduct, by simplifying their search for information (Gioia & Chittipeddi, 1991; Maitlis & Lawrence, 2007; Rouleau, 2005). Firms devote a substantial amount of organizational time, effort, and resources to the strategic and intentional generation of sensegiving cues in attempt to affect external perceptions of the firm, especially when situations are plagued with uncertainty and unpredictability (Fiss & Zajac, 2006; Mishina

et al., 2011). For example, managers “provide explanations, rationalizations, and legitimation for the activities undertaken in the organization,” in attempt to shape others’ perceptions and response to organizational behaviors (Pfeffer, 1991: 4). Following misconduct, firms can offer the media a specific version of reality through explanatory framing, which could influence journalists’ interpretation and evaluation of the situation (Coombs & Holladay, 2008; Fiss & Zajac, 2006).

What a firm does is also an important component of its sensegiving efforts (Bartunek, Krim, Necochea, & Humphries, 1999; Maitlis, 2005; Rouleau, 2005). For example, some describe how actions, such as executive succession or the adoption of prosocial initiatives, may be effective in helping the firm recover from wrongdoing by demonstrating firm quality to external constituents (Godfrey, Merrill, & Hansen, 2009; Maitlis, 2005). When the firm takes specific corrective actions, it outwardly portrays to the media the firm’s commitment to social standards of appropriate behavior (Pfarrer et al., 2008a). Taken together, what firms say and do following organizational misconduct are likely to be consequential to the tenor (i.e., the degree of positivity/negativity that reflects the course of thought or meaning that runs through something written or spoken) of media responses. This motivates my first research question:

*How do firm sensegiving efforts — in the forms of explanatory framing and corrective action — following corporate misconduct influence media response?*

In addition, two firms engaging the same types of sensegiving may encounter different responses from the media. For example, the media may trust some firms more than others or may rely on some firms’ interpretations more than others may. One way to consider potential differences is to examine the firm’s status relative to other firms in its

market space. Status reflects differences in social rank and is granted based on prestige (Benjamin & Podolny, 1999; Gould, 2002; Podolny, 1993). It is a relational concept and is socially constructed on the basis of a variety of criteria such as social responsibility, social relationships, financial soundness, innovation, perceived long-term value, and acceptable use of corporate assets (Lin, Yang, & Arya, 2009). Status relative to others implies social approval (Bitektine, 2011; Lin et al., 2009) and generates non-merit-based privileges (Washington & Zajac, 2005). In fact, some even suggest that high-status firms may be more able to elude punishment for wrongdoing because others view them as competent, credible, and legitimate (Florin, Lubatkin, & Schulze, 2003; Greve et al., 2010; Hollander, 1961; Schwartz, Kane, Joseph, & Tedeschi, 1978). However, when a high-status firm engages in wrongdoing it also violates the high expectations that external constituents may hold for this type of firm. As a result, they likely view available sensemaking cues in consideration of these expectations to recalibrate their impression of the firm. Therefore, firm status could serve as an important moderator of the relationship between firms' sensegiving efforts and media responses (Florin et al., 2003; Floyd et al., 1999; Kernahan, Bartholow, & Bettencourt, 2000). This leads to my second research question:

*How does firm status change the effectiveness of their sensegiving efforts (i.e., explanatory frames and corrective actions) following corporate misconduct?*

Lastly, building on recent scholarship focusing on the media's role in firm outcomes (Bednar, Boivie, & Prince, 2013; Deephouse, 2000; Pollock, Rindova, & Maggitti, 2008), I also argue that media coverage following organizational wrongdoing ultimately influences the capital market's assessment of the firm. Recent findings broadly

support the notion that the media plays an important role in various firm performance outcomes (Rhee & Haunschild, 2006; Tetlock, 2007). Specifically, due to its ability to shape others' opinion by drawing attention to the firm, its actions, and its assertions, and by offering a specific frame through which to interpret that information, the media can be influential in investors' behavior (Pollock et al., 2008; Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008). This may be particularly important in my research context, wherein firms have engaged in misconduct and investors, therefore, may be looking for help in understanding and interpreting factors that led to misconduct and evaluating the likelihood that it will recur. Therefore, I ask:

*How do media responses to firms' sensegiving efforts following organizational misconduct influence investor reactions?*

To test my ideas, I examine media coverage following one particularly visible and measurable form of organizational misconduct: financial misrepresentation (Harris & Bromiley, 2007; Karpoff et al., 2008). Firms that engage in financial misrepresentation, and are caught, are required to issue a material financial statement restatement (GAO, 2002, 2006).<sup>3</sup> Unlike bankruptcy, material restatements suggest the presence of deeply-rooted leadership and monitoring shortcomings (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Hennes, Leone, & Miller, 2008). Though they do not always warrant legal punishment, material financial restatements typically indicate admission of guilt for wrongdoing or controversial corporate actions (Agrawal & Chadha, 2005; Arthaud-Day et al., 2006). These restatements reconcile previous "aggressive" accounting practices

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<sup>3</sup> Herein, I use the shorthand terms "restatement" and "financial restatement" interchangeably to mean "material financial statement restatement." Similarly, by "financial misrepresentation" I mean "material financial misrepresentation." Firms may also experience non-material financial statement restatements, which are actually more common, but they are not part of this dissertation.

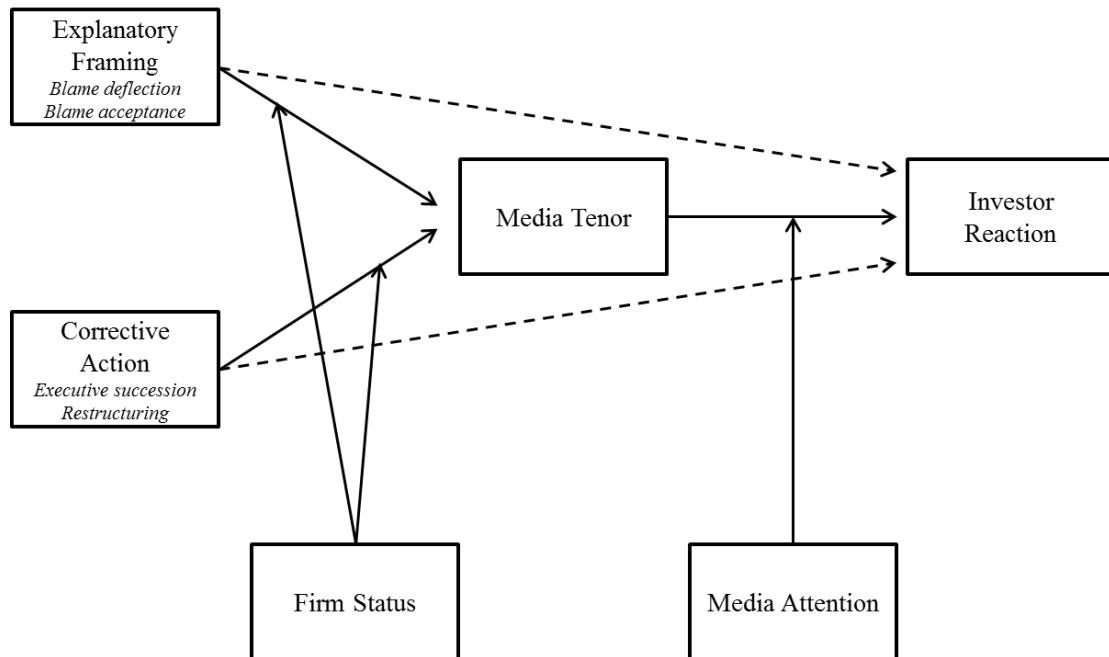
(GAO, 2002: 4), including misuse of facts and misinterpretation of accounting rules, and are frequently used as a proxy for fraud and improper activity (Harris & Bromiley, 2007; O'Connor, Priem, Coombs, & Gilley, 2006). Further, research in a variety of disciplines concludes that firms try to actively manage external evaluations through both explanatory framing and corrective actions following this particular type of misconduct (Arthaud-Day et al., 2006; Farber, 2005; Gertsen, van Riel, & Berens, 2006).

In sum, I develop hypotheses about media coverage following organizational misconduct and how this coverage influences investors' assessment of the firm. Drawing on the sensemaking/sensegiving literature and principles of expectancy violation theory, I theorize that firms' explanatory framing and corrective actions following organizational misconduct directly influence the tenor of media coverage. Further, I develop specific hypotheses about how firm status moderates these relationships. Specifically, I postulate that inconsistency between the sensegiving efforts of high status firms and their associated expectations changes the relationships between explanatory framing/corrective action and media response. Lastly, I suggest the tenor of media coverage works together with the amount of media attention to affect investors' reaction. Figure 1 illustrates these hypothesized relationships.

This study holds the potential of contributing to the literature in several ways. The first contribution lies in the extension of recent organizational research on the firm's ability to influence its social perceptions; a stream of literature that has gained momentum over the last few years. Specifically, by simultaneously examining both what a firm says (i.e., explanatory framing) and what it does (i.e., corrective action) following wrongdoing, this dissertation responds to a knowledge gap about how firms can influence

the infomediaries covering them (Westphal & Deephouse, 2011). Building on previous research that explores how firms generate responses from outside

**Figure 1. Proposed Model of Media Coverage Following Corporate Misconduct and its Subsequent Influence on Investor Reaction**



constituents (e.g., Elsbach, 1994), this study adds an empirical consideration of the conditions under which these efforts are effective, a topic that is not yet resolved in the current literature. I provide a model of media coverage of firms that have engaged in corporate misconduct that incorporates conditions under which the firm’s sensegiving efforts may be more or less effective. Such a model stands to extend the academic



community's current understanding of how firms can actively manage their external evaluations. Results from this study could contribute generally to a growing body of research that explores how prior beliefs about the firm influence how external evaluators (e.g., potential partners and other stakeholders in addition to shareholders and information intermediaries) interpret the firm's actions and statements (Mishina et al., 2011). This study could also contribute, more specifically, to nascent research on the firm's ability to reduce the impact of negative organizational behavior (Pfarrer et al., 2008a).

This study also holds the potential of enriching current research on capital market penalties associated with corporate misconduct by taking on a somewhat behavioral perspective of capital market reactions (Barberis & Thaler, 2003). The efficient market hypothesis (Basu, 1977; Jensen, 1978) suggests that capital market penalties for wrongdoing are simply a function of the rational use of new information. Investigating media tenor following misconduct allows me to explore how firms might engage in framing and activity with a view toward manipulating investors by way of the media's evaluation in addition to providing cues to investors directly. Drawing from recent work that explores the influence of the media's framing (e.g., pessimism) on investor sentiment and behavior (e.g., Tetlock, 2007), I extend the literature on the consequences of organizational misconduct by incorporating the role of the media in the financial penalties the firm incurs for their misconduct.

The remainder of this proposal proceeds as follows. Chapter 2 offers conceptual development for this dissertation. I begin Chapter 2 with an overview of the current literature on organizational misconduct and the media. Within this review I draw

attention to some gaps in our understanding of the consequences of corporate misconduct and, in particular, the scarcity of research considering the media's role in the aftermath of wrongdoing. Next, I discuss the media's role in firm outcomes, which allows me to underscore the importance of seeking a better understanding of how firms might manage their media coverage. I also provide a review of sensemaking perspectives, including expectancy violation theory and sensegiving concepts. Additionally, I offer an overview of the literature on status and describe it as a means through which the media generates expectations of firm behaviors. In Chapter 3, I advance a series of hypotheses. Specifically, I predict the tenor of media coverage following organizational wrongdoing based on firms' explanatory framing and corrective actions. I also suggest that firm status moderates these relationships. Lastly, I suggest that the tenor of media coverage works together with the amount of media attention to influence investor reactions to organizational misconduct. In Chapter 4, I outline and describe the methodology for empirically testing the proposed model.

## CHAPTER 2: CONCEPTUAL FRAMEWORK

### Organizational Misconduct

The study of corporate misconduct has been a mainstay in management research for more than 30 years (Coombs, 1995; Greve et al., 2010). Yet, Enron's collapse due to fraudulent activities early in the millennium intensified interest in organizational misconduct in the popular business press and among management scholars (Ashforth, Gioia, Robinson, & Trevino, 2008). In 2002, the Academy of Management organized a symposium titled "The Crisis in Corporate Confidence" to specifically discuss the matter of organizational misconduct. Subsequently, research on organizational misconduct has assumed a prominent place in management journals (Dunn, 2004; MacLean & Behnam, 2010; Marcel & Cowen, 2013; Mishina, Dykes, Block, & Pollock, 2010; O'Connor et al., 2006; Schnatterly, 2003). In fact, a 2008 special issue of the *Academy of Management Journal* focused solely on organizational wrongdoing.

Over time and through the study organizational misconduct, our understanding of its prediction is extensive. For instance, a conversation in the literature about "bad apples" versus "bad barrels" (Ashforth et al., 2008; Felps, Mitchell, & Byington, 2006; Zahra, Priem, & Rasheed, 2005) debates the nature of antecedents of organizational wrongdoing. From the bad apples perspective, scholars suggest organizational misconduct is attributable to a single person or small group and emphasizes the importance of individual attributes (Detert, Treviño, & Sweitzer, 2008; Trevino &

Youngblood, 1990). Through mechanisms such as behavior modeling or reward systems put in place and carried out by top level managers, individual bad apples stand to spoil the entire barrel (Ashforth & Anand, 2003; Felps et al., 2006). Scholars from the bad barrels school of thought, on the other hand, suggest that organizations breed misconduct through the evolution of norms (Ashforth & Anand, 2003; Ashforth et al., 2008). From this view, scholars shift responsibility away from a single bad apple and toward the firm itself. Firm-level structures, processes, and cultures represent key firm-level antecedents of organizational wrongdoing (Harris & Bromiley, 2007; MacLean, 2008; Vaughan, 1999).

Scholars have also uncovered some consequences associated with organizational misconduct. Specifically, they have found that the revelation of firm wrongdoing can result in penalties for the firm (Dechow & Sloan, 1996; Desai, Hogan, & Wilkins, 2006; Palmrose & Scholz, 2010; Rezaee, 2005), its managers (Pozner, 2008; Srinivasan, 2005), and even its social network (Kang, 2008). Firm consequences once misbehavior becomes public include decreased financial performance (Frooman, 1997), damage to interorganizational relationships (Sutton & Callahan, 1987), tarnished reputation (Alexander, 1999; Love & Kraatz, 2009), and possible legal penalties (Palmrose & Scholz, 2010). Of particular interest in this dissertation, scholars have recently begun to explore media coverage of the firm in the wake of organizational misconduct (Vergne, Forthcoming; Wiersema & Zhang, 2013) (See Appendix A for a summary of key articles on organizational misconduct published in top management journals).

The current dissertation builds on this recent literature that draws attention to the media responses to wrongdoing (Barnett, Forthcoming; Carberry & King, 2012;

Wiersema & Zhang, 2013). This work is mainly interested in the social narrative that develops following organizational misconduct and how the media shapes that narrative (Durham, 1998). Some scholars have begun to explore ways in which firms attempt to influence media coverage by managing the message or implementing corrective actions (e.g., Benediktsson, 2010). Building on these ideas, this dissertation explores the mechanisms by which the media draws conclusions about organizational misconduct and the extent to which this ultimately affects capital market penalties for the misconduct. From my review, few studies examine firms' sensegiving efforts in the wake of organizational misconduct, and fewer still explore their effectiveness or factors that might change those relationships.

### **Media Coverage**

Information intermediaries do not provide capital to the firm, but can affect the firm by their capacity to “mobilize public opinion in favor of, or in opposition to, a corporations performance,” (Clarkson, 1995: 107). For instance, “infomediaries” (Deephouse & Heugens, 2009; Pfarrer et al., 2010; Pollock & Rindova, 2003) play an active role in shaping others' image and general approval of the firm (Bednar, 2012; Fombrun, 1996; Rao, 1994). The media, for example, choose which firms to cover, support, and recommend. To illustrate, consider one journalist, Seitz (2012), who, commenting on a recent Apple product release, writes, “The media can't write enough about it” and “when rival companies release competing products, they hear crickets.” Another journalist, Magid (2012), adds,

I don't blame Apple for all the hype. It's their job to maximize the interest in their products. I do blame the press—myself included—for obsessing over them. I keep telling myself to put Apple products into perspective, but I'm as

guilty as anyone when it comes to covering Apple more than other companies. It's partially competitive pressure, and in my case, it's partially demand from radio and TV stations I work with. And when it comes to blog posts, there's another incentive—stories about Apple products get more hits than other stories. So if you're looking to maximize viewers (which often translates into more revenue), then you can't go wrong by writing about Apple, which, of course, is exactly what I just did.

Seitz (2012) published the results of a study of media coverage following the release of smartphone products by three companies that illustrates disparate media coverage: Apple received 64.7% of total media attention while Samsung and Nokia garnered only 22.2% and 13.1%, respectively.

Scholars in a variety of fields including management, finance, and accounting investigate how media coverage impacts investor behavior. Media coverage of a firm is important because investors rely on information the media provides when choosing the firms in which they will invest, (Pollock et al., 2008; Tetlock, 2007; Zuckerman, 1999). In addition, scholars also acknowledge the importance of the media's interpretation and framing of firm activities on investor behavior (Pearson & Clair, 1998; Pollock & Rindova, 2003). Most investors (that are not tied to indices or automatic trades) are subject to cognitive biases in their decision-making (Shiller, 2003; Statman, 2008). For this reason, media tenor stands to influence the capital market's evaluation of the firm or an event by publicly declaring the extent of its approval or disapproval (Gurun & Butler, 2012; Lamertz & Baum, 1998). Scholars have identified the media as one of the firm's most salient stakeholders because of its ability to manipulate social understanding of firms and their activities, (Mitchell, Agle, & Wood, 1997; Pfarrer et al., 2008a). Accordingly, management scholars' have devoted a considerable amount of attention to

the role the media plays in firm outcomes over the last two decades (See Appendix B for a summary of recent media articles published in top management journals).

Following misconduct, the media dispenses differential treatment to firms (Benediktsson, 2010). To illustrate, at the turn of the century financial scandals broke at two S&P 1500 firms: Adelphia (one of the largest U.S. cable television operators) and Waste Management. Yet, as Benediktsson (2010): 2202 explains, media coverage of Waste Management was relatively “muted” compared to that of Adelphia which “mounted more rapidly.” Although the academic community generally accepts that “not all media stories are created equal” (Gurun & Butler, 2012: 561), it is less clear what leads to disparate media response to organizational misconduct. Some have suggested that a firm’s reputation could possibly contribute to unequal media attention following the revelation of misconduct (e.g., Rhee & Haunschild, 2006), but there is little empirical evidence in support of these claims. The literature on media coverage of organizational misconduct thus far is characterized mainly by a range of conceptual models that lay the groundwork for theory development, but only a small number of empirical studies (e.g., Wiersema & Zhang, 2013).

### **Sensemaking and Sensegiving in the Aftermath of Organizational Misconduct**

The sensemaking literature may provide footing for additional theorizing and examination of media coverage following firm wrongdoing. A key element in this perspective is the emphasis on how individuals attach meaning to events. For instance, while journalists may be viewed as news gatherers, they perhaps operate more like news processors (Stoker, 1995). Facing challenges associated with presenting news that is creative, novel, original, and unexpected, these individuals seek out key events and turn

them into news (McQuail, 1985; Rindova, Pollock, & Hayward, 2006). Thus, news is not unbiased, but instead is reflective of the interpretations of journalists (Deephouse & Heugens, 2009; Noelle-Neumann & Mathes, 1987; Zhong & Newhagen, 2009).

Journalists look to available cues to make sense of events and determine which stories to cover, what information to include, and the extent to which they present the information in a positive or negative light (Pollock et al., 2008; Westphal & Deephouse, 2011).

*Sensemaking.* Sensemaking entails the cognitive appraisal of an event, environment, or some other stimulus (Weick, 1995; Weick et al., 2005) and provides answers to two simple questions: what does this mean? And what should I do next? (Boudes & Laroche, 2009). Albeit seemingly simple, scholars offer a wide variety of definitions and conceptualizations of sensemaking and the sensemaking process. At a minimum, sensemaking includes the activity of placing stimuli into frameworks or generalized points of view that direct a person's interpretations (Cantril, 1941). By placing stimuli into frameworks one is better able "to comprehend, understand, explain, attribute, extrapolate, and predict" the world around them (Starbuck & Milliken, 1988). Other scholars add that sensemaking also includes action, interpretation, and response (Gioia & Chittipeddi, 1991; Thomas, Clark, & Gioia, 1993; Weick, 1979). For this reason, sensemaking perspectives are helpful for explaining journalists' response to what firms say and do, as well as other available cues, following organizational misconduct.

Sensemaking occurs when something interrupts "normal," such as the revelation of corporate misconduct. According to Louis (1980), sensemaking is a recurring cycle. In a sequence over time, individuals develop a sense of normal which serves as a prediction about future events (e.g., organizations will comply with mandatory financial



reporting standards). Expectancy violation theory explains how expectations based on preconceived ideas about “normal” influence the way individuals select cues for processing (Snyder & Swann, 1978), make inferences (Cantor & Mischel, 1979), and retain information (Zadny & Gerard, 1974). Events that are in line with expectations are confirmatory and go unnoticed, whereas events that run counter to expectations attract attention (Burgoon, 1993; Floyd et al., 1999; Weick, 1995). Violations of commonly held expectations of acceptable or “normal” organizational behavior (e.g., financial misrepresentation) create a discrepancy that is likely to capture the attention of the media and lead to a general negative reaction (Bettencourt, Dill, Greathouse, Charlton, & Mulholland, 1997; Kernahan et al., 2000; Weick et al., 2005).

After misconduct grabs the attention of the media, journalists search for new information about the firm and use available cues to recalibrate their perceptions of it in light of its wrongdoing (Zavyalova et al., 2012). Rather than “getting it right,” sensemaking is about “continued redrafting of an emerging story so that it becomes more comprehensive” (Weick et al., 2005: 415). Theorizing by Mishina et al. (2011) explains that journalists likely interpret the meaning of a variety of cues and then combine them through a process of “cognitive algebra” to form an overall assessment of the firm and its actions.

It is unlikely, however, that journalists weight all cues equally as they form judgments about the firm. The cue’s diagnosticity (i.e., usefulness in coming to a conclusion) or richness (Petkova, Rindova, & Gupta, 2013), is partially a function of its clarity and relevance (Fiske & Taylor, 1991). However, the diagnostic weight the media gives to certain cues also perhaps depends on the positivity (negativity) of the cue (Ito,

Larsen, Smith, & Cacioppo, 1998; Skowronski & Carlston, 1987). For instance, when faced with multiple cues, some scholars have found that negative cues are weighted more heavily than positive cues (Jayachandran, Kalaiganam, & Meike Eilert, 2013). Specifically, according to Mishina et al. (2011), when considering an actor's behavioral tendencies, deviation from social expectations is much more diagnostic (i.e., telling) of the true underlying character of the actor being evaluated. Thus, people tend to view failures of integrity as reflecting enduring deficiencies of the actor's character that can be generalized to other circumstances in the future (Kim, Ferrin, Cooper, & Dirks, 2004). Thus, external evaluations following this type of failure may be especially difficult to overcome (Gillespie & Dietz, 2009). Nevertheless, while the media likely falls victim to this "negativity bias" (Rozin & Royzman, 2001), firms can provide cues in attempt to offset this bias or shape (reshape) the media's perception of the firm following organizational misconduct.

***Sensegiving.*** Sensegiving describes the process in which actors attempt to influence the manner in which others attach meaning to events (Gioia & Chittipeddi, 1991; Maitlis & Lawrence, 2007). Sensegiving cues assist in the sensemaking process. Weick et al. (2005) explain how sensemaking relies on sensegiving. Rouleau (2005: 1415) echoes this point by describing sensemaking and sensegiving as two "complementary and reciprocal processes." Sensegiving is an act of persuasion (Bartunek et al., 1999; Smith, Plowman, & Duchon, 2010) that attempts to shape how others interpret and explain sets of available cues (Maitlis, 2005).

Sensegiving influences external perceptions of the firm by reducing information asymmetry and providing cues that help others construct meaning toward a preferred

definition of the firm (Gioia & Chittipeddi, 1991; Martens, Jennings, & Jennings, 2007; Tomlinson & Mryer, 2009). Information asymmetry between the media and the firm arises because the media does not have access to the day-to-day operations of the firm. Sensemaking devices (e.g., cues the firm provides) help the media develop an informed understanding of the firm and its actions (Mazzola, Ravasi, & Gabbioneta, 2006). For instance, firms can publish reports regarding their internal processes that might not otherwise be visible to outsiders with a view toward changing (and controlling) the information that is available to outsiders (Putrevu, McGuire, Siegel, & Smith, 2012).

Firms devote a considerable amount of organizational time to the strategic and intentional generation of cues (i.e., sensegiving) in attempt to affect external perceptions of it. Maitlis and Lawrence (2007: 57) propose that “sensegiving is not only a prevalent activity in organizations, but also a critically important one.” In complex, complicated, or ambiguous situations, individuals rely on others’ cues before drawing conclusions about the situation (Ashforth & Humphrey, 1995; Maitlis & Sonenshein, 2010). Consequently, firms use a variety of sensegiving strategies to try to influence how both internal and external constituents view the firm and its actions in these types of situations (Elsbach, 1994; Godfrey et al., 2009; Pfeffer, 1981). For instance, research on sensegiving often focuses on the sensegiving strategies leaders use to implement an organizational change (Maitlis & Lawrence, 2007). This research shows that sensegiving agents use tactics such as holding meetings to espouse beliefs (Gioia & Chittipeddi, 1991), providing new labels to describe the company (Corley & Gioia, 2004), and sharing narratives (Snell, 2002) to affect organizational members’ view of the change. Firms can also provide cues

regarding the cause of an event to help its constituents make sense of it [Tomlinson & Mryer, 2009].

Scholars historically conceptualize sensegiving as framing, selectively highlighting some cues through language (Coombs & Holladay, 2008; Elsbach, 1994; Fiss & Zajac, 2006). However, Maitlis (2005: 25) describes sensegiving as “statements or activities that involve[d] providing plausible descriptions and explanations of extracted cues and constructing sensible environments for others.” From this perspective, an action can give sense much like a verbal account or narrative. For instance, some firms might undertake philanthropic or sustainability initiatives with a view toward providing cues regarding the moral capital of the firm and, ultimately, positively influencing external observers’ perception of the organization (Godfrey, 2005). Following the revelation of organizational misconduct, in particular, research shows that firms attempt to shape (reshape) external evaluations of the organization and its actions through a variety of sensegiving mechanisms (Arthaud-Day et al., 2006; Brinson & Benoit, 1999). Yet, there has been relatively little examination of the efficacy of these efforts or conditions under which these efforts are more, or less, effective.

Scholars note the need for a clearer picture of the effectiveness of firms’ sensegiving efforts following wrongdoing, as our understanding of the matter is embryonic (Dardis & Haigh, 2009; Huang, 2006). Accordingly, in the construction of a model of media coverage following organizational misconduct, I consider two main forms of sensegiving firms might use to influence the media’s response: explanatory framing and corrective action.

***Giving sense through explanatory framing.*** Framing condenses information by selectively punctuating certain cues, highlighting some informational elements while hiding others (Fiss & Zajac, 2006; Williams & Benford, 2000). To this end, firms can articulate a specific version of reality through framing that allows them to secure both the understanding and support of the media (Benford, 1993). Specifically, explanatory framing via verbal accounts can be an important tool for firms as they try to gain and maintain the support of the media following the revelation of their misconduct (Huang, 2006; Pfeffer, 1981).

Once organizational misconduct becomes public, the firm's verbal accounts can provide answers to simple questions like "why did this happen?" or, more specifically, "who is to blame?" (Kelley & Michela, 1980; Tomlinson & Mryer, 2009; Weiner, 1986). For instance, an apology communicates that the firm is claiming responsibility for an event and asking forgiveness (Coombs & Holladay, 2008). Apologies are attempts to change outside evaluators' perceptions of the firm (Bies, 1987; Frantz & Bennis, 2005). In another account, firms can deflect blame through a verbal account and refuse responsibility for an event. Firms can use this type of account to separate themselves from a controversial event (Kim et al., 2004). Verbal accounts can have a tangible effect on how stakeholders, both internal and external, resolve issues and crises (Hearit, 2005; Pfarrer et al., 2008a). They provide a context for the exposed wrongdoing and "verbally bridge the gap between action and expectation," (Scott & Lyman, 1968: 46).

***Giving sense through corrective actions.*** Corrective actions are those that intend to solve a problem that led to wrongdoing and prevent recurrence of the offense (Benoit & Czerwinski, 1997; Gillespie & Dietz, 2009). Similar to explanatory framing, actions

simplify the media's search for information and stand to influence their perceptions of the firm. Specifically, corrective actions following misconduct can provide information such as who, or what, is to blame for the indiscretion and whether the organization is correcting the problem (Benoit, 1997; Pfarrer et al., 2008a; Schweiger & Denisi, 1991). For instance, in 1999, following years of shaming for its labor practices, Nike created the Fair Labor Association, a non-profit group to establish monitoring processes and codes of conduct, and urged other brands to join (Nisen, 2013). By engaging in this prosocial behavior, Nike indicated to outsiders that the firm's monitoring functions may have been subpar and that it was committed to resolving the problem. This particular action also communicated to outsiders that similar labor relation violations in the future were unlikely.

Firms can implement a wide variety of corrective actions that attract the media's attention to the source of wrongdoing and changes made to the firm that reinforce efforts to rectify the problem. Some actions may even reflect the firm's commitment to renewal, representing higher ethical standards, rather than simply restoration to previously established standards (Ulmer, Seeger, & Sellnow, 2007). For example, changes in top management isolate blame to a contained source (i.e., shifts blame away from the firm and onto a dismissed executive) and indicate the firm is ridding itself of bad influences (Gillespie & Dietz, 2009; Suchman, 1995). This type of action suggests the firm will return to its previous state. On the other hand, announcing changes to internal operations following misconduct suggests an internal flaw is to blame for the problem, but the firm is committed to renewal, or achieving a better state than before the transgression (Ulmer et al., 2007).

There is some inconsistency in the literature regarding the effectiveness of framing and corrective action as a means of restoring positive perceptions of the firm. The effectiveness of an apology following a transgression, for example, is somewhat unclear as evidenced by conflicting empirical results (Kim et al., 2004; Marcus & Goodman, 1991). Likewise, even though some find corrective actions have a positive effect on the perceptions of the firm, other results show little effect of their ability to bolster the credibility of the firm (Farber, 2005; Zavyalova et al., 2012). In this dissertation, I attempt to shed light on these ideas by testing the direct effects of explanatory framing and corrective actions, but also by examining these relationships in view of existing cues that derive from characteristics of the organization. After all, people interpret cues in light of their expectations (Weick, 1995). Therefore, I examine how expectations associated with the firm change the way the media responds to firms' sensegiving efforts.

*Status as a sensemaking cue.* Categorization lends to the development of expectations by which individuals evaluate and respond to events. Central to sensemaking, categorizations are structural units or clusters of thematically related knowledge (Bartlett, 1932; Fiske & Taylor, 1991; Rumelhart, 1978). They are buckets or groupings of information that derive from past events or experiences individuals store with a view toward interpreting future events (Rumelhart & Ortony, 1976). Categorizations act as "data reduction devices" (Balogun & Johnson, 2004: 525) or frames of reference, and they enable individuals to navigate environmental complexities with reduced costs of time and effort (Barnett, Forthcoming; Bitektine, 2011; Schwenk, 1988).

Categories have defining features and encompass objects or concepts with perceived similar attributes (Dutton & Jackson, 1987; Porac & Thomas, 1990). Through categorization, individuals summarize large amounts of information by a category name or label that provides shared meaning (Cantor & Mischel, 1979; Dutton & Jackson, 1987; Rosch, 1978). Categorization thus reduces uncertainty by organizing objects or concepts into meaningful groups and defining expectations of group (i.e., category) members (Dutton & Jackson, 1987; Negro, Koçak, & Hsu, 2010). Simply stated, not all expectations derive from direct observation of the target, but rather draw from evidence about the category or group to which the target belongs (Darley & Fazio, 1980).

For example, one way the media might categorize firms to establish expectations regarding their behavior is to view them with respect to how they are perceived by others (Dutton & Jackson, 1987; Podolny, 1993; Sauder, Lynn, & Podolny, 2012). Status is the prestige outsiders grant to firms based on differences in social rank which generates privileges or discrimination for the firm (Gould, 2002; Washington & Zajac, 2005). According to (Podolny, 1993), status underlies assessment of the entire firm's quality. Firms may earn their status through their performance in areas such as social responsibility, social relationships, financial soundness, innovation, perceived long-term value or acceptable use of corporate assets (Lin et al., 2009; Podolny, 1993; Sauder et al., 2012). In this way, status influences how other actors perceive the organization (Gould, 2002; Jensen & Roy, 2008; Weber, 1978)

Firm status can provide a cognitive short-cut for journalists who operate under pressure from multiple sources and face imperfect information (Bitektine, 2011; Jensen & Roy, 2008; Rindova et al., 2006). Jensen (2006: 97) asserts that individuals use the firm's



status as a cue when there is a lack of information for more exhaustive sensemaking processes. For instance, investment banks use status to evaluate plausible partnerships when they know very little about the other firm (Chung, Singh, & Kyungmook, 2000; Podolny, 1994). Similarly, young firms, with few laurels on which to rest, benefit from relationships with high-status partners because they provide cues to others regarding the quality of firm (Stuart, Ha, & Hybels, 1999). These findings demonstrate how status can serve as a sensemaking cue for those evaluating firm quality. Other, more specific, expectations associated with high-status may include competency or reliability (Florin et al., 2003). Similarly, status may also operate as an important sensemaking cue for those making judgments about a firm's behavioral standards and the likelihood that they would violate established norms of behavior.

### **Summary**

The study of corporate misconduct has been of interest to a wide range of scholars in recent years. The majority of this research focuses on uncovering why misconduct occurs and how to prevent it, but there is a growing body of work that examines the consequences of firm-level wrongdoing. An emergent stream of literature explores consequences for the firm, its managers, and its network including decreases in financial performance, reputational penalties, and damaged interorganizational relationships. However, few studies address the media's role in the aftermath of wrongdoing. We know relatively little about the predictors of media coverage following corporate misconduct or its influence on penalties the firm incurs. Greater consideration of how the media forms responses to corporate misconduct and the extent to which they influence the firm's

shareholders could yield a clearer picture of the consequences associated with organizational wrongdoing.

Viewing media response through a sensemaking lens provides insight into the meaning journalists ascribe to firms and their misbehavior. Misconduct triggers sensemaking because it violates the media's expectations of "normal." Thus, following the revelation of wrongdoing, members of the media search for information to make sense of the event and recalibrate its evaluation of the firm.

Through sensegiving, firms can influence the manner in which journalists make sense of the organization and its misconduct. Members of the media readjust their perceptions of the firm and its behavior as new information becomes available. Therefore, firms can actively manage the media's interpretation of the situation through sensegiving following corporate misconduct. Firms can offer the media a specific version of reality through verbal accounts and corrective actions. These sensegiving mechanisms stand to provide clarity to the cause of the problem, what the firm is doing to remedy the underlying issue, and the likelihood of recurrence.

However, members of the media process these cues in the context of already-established expectations of the firm. Firm status, a category that garners expectations of quality, competence, reliability, and general adherence to social norms could influence how the media interprets a firms' sensegiving efforts. Specifically, higher status firms may engender norms of behavior such that violations of those norms change the way external evaluators receive and interpret sensegiving cues. In Appendix C, I describe key concepts.

## CHAPTER 3: HYPOTHESES

### **Direct Effects on Media Tenor and Investor Reaction: Explanatory Framing**

Following the revelation of corporate misconduct, firms can offer a verbal account in which they deflect fault away from themselves, or deny blame for the event (Coombs & Holladay, 2008). I define *blame deflection* “as any statement that suggests the cause of organizational misconduct is not systemic to the firm.” (Huang, 2006). Once wrongdoing is made public, it is possibly unreasonable for firms to suggest they were not at all involved or that the event did not occur, but firms can refute the notion that the cause of the wrongdoing is inherent to the firm (Kim, Dirks, Cooper, & Ferrin, 2006). Firms can demonstrate this by shifting the blame to external factors or temporary organizational conditions. In doing so, the firm suggests it is not responsible for its misconduct because it was not the culprit and therefore should not be held fully accountable for the consequences (Bies, 1987). To illustrate blame deflection, in the same press release that Veritas Corporation announces it is restating its financials, the firm also deflects blame for its misrepresentation by saying, “While today’s announcement is unfortunate, it does not change the fundamental strength of our business...” Via this strategic wording, the firm essentially blames bad luck for its situation rather than claiming responsibility (Veritas, 2004).

Deflecting blame likely runs parallel to the firm attributing its misconduct to external causes. These concepts might not be tantamount, evidenced in a case where the

firm deflects blame away from characteristics or processes inherent to the firm, but instead isolates the blame to a single (or a few) key employees. However, it is likely that by way of avoiding culpability the firm offers alternative, outside, explanations for why the misconduct occurred.

There may be some reasons to suggest the media could view blame deflection negatively (Kim et al., 2006). For instance, a blame deflection suggests there is no need for rectification of internal operations, which journalists may perceive to be arrogant, or plainly incorrect if there is any remaining uncertainty regarding the cause of the wrongdoing (Kim et al., 2004). Also, the media may view this type of account as “cheap talk,” because the repercussions associated with claiming responsibility of the misconduct could be severe, thus providing the firm with motivation to falsely deny blame (Farrell & Rabin, 1996). Such insincere explanations could be associated with negative outcomes, such as heightened anger, because evaluators can view unconvincing blame deflection as an additional act of wrongdoing (i.e., lying) (Gundlach, Douglas, & Martinko, 2003).

However, I suggest that countervailing forces working to temper negative media reaction associated with organizational misconduct will be even more significant. The cues embedded in blame deflection could help mitigate the media’s negative reaction to misconduct. This sort of account provides situational factors that could be to blame for the firm’s misconduct, which can create or confirm journalists’ doubt about the firm’s responsibility for its wrongdoing (Kim et al., 2004). When the firm provides alternative causes of wrongdoing or at least suggests the misconduct wasn’t the fault of the firm as a whole, the media can discount that the firm is to blame (Kelley, 1972; McClure, 1998). In

other words, journalists may make attributions for the firm's wrongdoing according to a discounting principle: "the role of a given cause in producing a given effect is discounted if other plausible causes are present" (Kelley, 1972: 8). For this reason, blame deflection can reduce negative reaction to harmful acts (Kim et al., 2004; Shapiro, 1991) and research has linked it to perceptions of honesty, ethicality, and trustworthiness (Sigal, Hsu, Foodim, & Betman, 1988). Likewise, research also shows that character evaluations are less negative following denial of culpability for wrongdoing (Riordan, Marlin, & Kellogg, 1983).

Blame deflection, therefore, could help the firm reduce or avoid association with the negative cues, such as low- or lack of integrity and dishonesty, that often arise as a result of misconduct (Seeger & Ulmer, 2002). By sidestepping negative cues that accompany the culpability of wrongdoing, the firm can potentially eliminate, or at least ameliorate, the risk of a negativity bias among the media (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001; Rozin & Royzman, 2001). When it deflects blame, the firm generally provides no new negative information that could dominate the media's evaluation of the event or understanding of the firm. Instead, the deflection of blame asserts that the firm's integrity is intact and should not be doubted, thus providing external evaluators a hook on which to hang their attributions of blame (Tomlinson & Mryer, 2009). Given this evidence and these arguments, I hypothesize the following:

*Hypothesis 1a: Following organizational misconduct, blame deflection is positively associated with media tenor (i.e., media tenor will be less negative when the firm deflects blame).*

Using the same logic, I predict that when the firm shifts blame away from itself and toward another source or situational factor, investors will also respond more positively. Like members of the media, investors look for available cues to make sense of the firm and their actions. When the firm provides no new information about its internal operations to the investment community by communicating that its fundamentals have not been compromised as evidenced by wrongdoing, investors have little reason to adjust their evaluation of the firm downward. The effect of providing alternative explanations for the firm's misconduct should also influence the likelihood investors will discount the firm's responsibility for the event (Kelley & Michela, 1980) and perhaps see no reason to recalibrate their evaluation of the firm. Therefore, I also hypothesize the following:

*Hypothesis 1b: Following organizational misconduct, blame deflection is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm deflects blame).*

Following organizational misconduct, the firm could also offer a public statement in which it accepts blame or attributes the cause of the misconduct to a factor or factors internal to the firm. For example, following Take Two Interactive's 2002 restatement, the firm issued the following statement,

We would like to extend our sincerest apologies for the halt in trading of our stock, and any inconvenience caused by the postponement of our conference call originally scheduled for January 22, 2002. We deeply regret the events that caused the Company to restate its financial statements, and we are highly committed to taking every appropriate action to ensure that such events will not happen in the future.

This example shows that the firm not only clearly apologizes for the event, but claims responsibility for its cause.

Blame acceptance for wrongdoing can be associated with positive outcomes that could motivate firms to issue them when wrongdoing becomes public (Bottom, Gibson, Daniels, & Murnighan, 2002; Kim et al., 2006; Schwartz et al., 1978). For instance, when firms claim responsibility for their misbehavior, they perhaps signal an intention to avoid similar violations in the future. Thus, some scholars find that this type of statement can mitigate punishment following an indiscretion (Schwartz et al., 1978). For this reason, some have suggested that blame acceptance could be a quick and easy way the firm can get a negative event, like the exposure of misbehavior, “over with and behind them” (Marcus & Goodman, 1991: 287).

Nonetheless, I argue that accepting blame for misconduct could exacerbate negative consequences in the media. By confirming that it engaged in wrongdoing, the firm confirms its refusal to adhere to social standards rather than choosing to act in a way that is in line with social expectations (Tomlinson & Mryer, 2009). From this view, deviance from socially acceptable firm behavior is intentional, which is likely to tarnish external evaluations of the firm (Coombs & Holladay, 1996). Further, when a firm admits that its wrongdoing can be attributed to the firm itself, the media may be more likely to regard characteristics of the firm that led to this particular case of wrongdoing as being systemic, or inherent to firm processes and structures (Weiner, Amirkhan, Folkes, & Verette, 1987). When the organization engages in wrongdoing it violates a given assumption of acceptable and expected behavior (e.g., the firm should never lie) and, therefore likely carries more information about the moral status of the firm as an enduring quality (Kant, 1797/1991; Tomlinson & Mryer, 2009). Thus, if the firm admits that it has

been dishonest on one occasion (e.g. “we have misrepresented our finances”), the media may deem the firm more likely to be dishonest in general (Tomlinson & Mryer, 2009).

In addition, there is some possibility that claiming responsibility for a violation of integrity (note: I consider all instances of material financial misrepresentation, in this study, to be integrity violations, as opposed to competence violations, c.f. Mayer, Davis, & Schoorman, 1995) could allow the media to broadly classify the firm dishonest. As journalists draw conclusions following misconduct, they plausibly weight blame acceptance more heavily than intended positive signals of improvement or promises of change (Kim et al., 2006; Rozin & Royzman, 2001). Ferrin, Kim, Cooper, and Dirks (2007: 895) explain that when considering matters of integrity, such as in the case of corporate wrongdoing, confirming one’s guilt through a statement, even by way of an apology, should “offer a reliable cue that one lacks integrity which would outweigh any positive effects” of this kind of statement. Put another way, internal attributions of integrity-based violations of acceptable behavior are diagnostic of the firm’s integrity—only firms that do not possess integrity demonstrate lack of integrity (Tomlinson & Mryer, 2009). When the firm indicates guilt, the media may be likely to place the firm in a category of *bad*, *deviant*, or *low-integrity* firms (Skowronski & Carlston, 1987, 1992). Thus, although accepting responsibility for competence violations could potentially be more useful, statements that make internal attributions for an integrity violation, such as financial misrepresentation, could put the firm at risk of being labeled or stigmatized as a wrongdoer (Kim et al., 2004; Tomlinson & Mryer, 2009). Therefore, I suggest the following hypothesis:



*Hypothesis 2a: Following organizational misconduct, blame acceptance is negatively associated with media tenor (i.e., media tenor will be even more negative when the firm accepts blame).*

Investors, especially, may be more likely to weight the negative cues associated with blame acceptance more than any potential positive cues associated with this type of verbal account (Skowronski & Carlston, 1987). Investors' primary function is to evaluate the firm's ability to generate profit. Therefore, social graces associated with accepting blame are most likely less important for investors tasked with evaluating the firm than the information about the firm that derives from an acceptance of blame. If the firm's internal control mechanisms or some other operation is flawed, investors will likely lose confidence in the firm's ability to generate a profit. For these reasons, I postulate the following hypothesis:

*Hypothesis 2b: Following organizational misconduct, blame acceptance is negatively associated with investor reaction (i.e., investor reaction will be even more negative when the firm accepts blame).*

### **Direct Effects on Media Tenor and Investor Reaction: Corrective Actions**

Executive succession following organizational misconduct is a common practice (Agrawal & Chadha, 2005; Marcus & Goodman, 1991). Indeed, following a financial restatement, 60 percent of restating firms experience turnover of top management within 24 months of the restatement announcement (Desai et al., 2006). Arthaud-Day et al. (2006) show that the leaders of firms that have been caught misrepresenting their finances more than double the likelihood of losing their jobs. To illustrate, one company explains in a press release that it "forced its Chief Financial Officer (CFO) to resign,"

after discovering inappropriate accounting procedures that led the firm to restate the previous year's financial statements (Micro-Integration, 1997).

Executive succession is a response to questions of culpability that allows the firm to attribute wrongdoing to a single individual, thus effectively relieving the firm of responsibility (Perelman & Olbrechts-Tyteca, 1969; Ulmer et al., 2007; Zhang & Rajagopalan, 2003). Executives are symbols of the organization, its successes and its failures (Pfeffer & Salancik, 1978). Likewise, they are linked to their firms' deviance, which could lead to their being stigmatized (Devers et al., 2009; Wiesenfeld et al., 2008). Thus, removing stigmatized leaders could mitigate the shame the media might attach to the firm following the revelation of misconduct. Rather than remaining "intertwined" (Sutton & Callahan, 1987: 406), the firm can separate itself from the misconduct by pointing its finger at a firm leader and removing this "bad apple" so that it will no longer spoil the barrel (Suchman, 1995). When a negative outcome is perceived as an event caused by a temporary circumstance that is not inherent to the firm (e.g., an executive that can be removed), negative effects of the event can be minimized [Tomlinson & Mryer, 2009; Lewicki & Bunker, 1996].

Executive succession following misconduct also communicates the firm's low tolerance for deviance (Pfeffer, 1981; Ulmer et al., 2007). Hearit (1995) describes this as "value-centered discourse," which can help the firm relegitimize following wrongdoing. Additionally, by punishing the alleged guilty party via dismissal, the firm establishes a precedent that likely deters other organizational members from engaging in similar behavior in the future (Ulmer et al., 2007). Gillespie and Dietz (2009) explain that the presence of punishment (e.g., dismissal) "sends clear signals that the behavior is

unacceptable and offenders will ‘pay a price.’” Thus, following wrongdoing, executive succession is a means through which the firm can also bolster its values and instill within the organizational culture the notion that there will be consequences for intentional misbehavior (Rowland & Jerome, 2004).

The media’s audience, which has a tendency to find pleasure in others’ misfortune (Smith et al., 1996), may provide additional insight into the relationship between executive succession following wrongdoing and media response. Motivated to provide their audience with a captivating story, journalists could shift their evaluative focus to the dismissed executive and away from the firm (Wiesenfeld et al., 2008). For good or bad, journalists cater to and indulge their audiences’ biases (Feather & Sherman, 2002; Smith et al., 1996). For instance, Benediktsson (2010: 2194) explains how “newspapers focus on individual acts of wrongdoing rather than a pattern of organizational negligence, even when an organization is arguably more at fault than any one individual.” This is likely because “people embrace leadership as a simple, vivid explanation for organizational actions” (Staw & Sutton, 1992: 356). Therefore, through executive succession following organizational wrongdoing, the firm offers the media a compelling story of a leaders’ fall from grace, and in doing so redirects the media’s negative evaluations away from the firm. Therefore, I advance the following hypothesis:

*Hypothesis 3a. Following organizational misconduct, announcing the dismissal of a top executive is positively associated with media tenor (i.e., media tenor will be less negative when the firm dismisses a top executive).*

Similarly, visibly shifting blame to an isolated source should provide investors with confidence that firm has removed the “problem.” By divorcing itself from negative

influences (i.e., a guilty individual or individuals), the firm also indicates to investors that recurrence of misconduct is unlikely allowing the firm to regain legitimacy (Pfarrer et al., 2008a; Suchman, 1995). Further, dismissing the alleged cause of the firm's misconduct provides a platform from which the firm can bolster its values. Therefore, I also advance the following hypothesis:

*Hypothesis 3b. Following organizational misconduct, announcing the dismissal of a top executive is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm dismisses a top executive).*

In addition to executive succession, firms can also choose a variety of other restructuring activities following the revelation of misconduct that essentially create *monitoring mechanisms* or *watchdogs* designed to prevent recurrence (Suchman, 1995). For instance, on August 5, 2005, Deltic Timber announced that it would restate its financial statements for the years 2002 through 2004. In the same press release, the firm explains "The overstatement arose from the failure of timber procurement personnel to timely report the differences between actual harvest volume and the original estimate of timber volume." The firm goes on to describe its corrective actions by explaining that it has "implemented new policies and procedures that seek to ensure the timely and accurate reporting of such differences." (Deltic Timber, 2005). This restructuring effort suggests the firm's internal operations were flawed, but also that they will improve and it is unlikely that a similar situation will occur again in the future. Unlike executive succession, a situation in which the firm indicates that it is removing the problem, restructuring communicates that the firm is "fixing" the problem.

While the firm acknowledges the organization's shortcomings that led to the wrongdoing with this sort of corrective action, restructuring moves beyond accepting responsibility for the misconduct by visibly demonstrating that the firm is committed to righting its wrongs (Goodstein & Aquino, 2010). Offering only symbols or claims of remorse instead of observable actions that appropriately address the root of the problem may hinder the firm's ability to complete its "rehabilitation" following misconduct (Pfarrer et al., 2008a). Taking actions that improve the internal workings of the firm, however, indicate the firm is in control and addressing the problem, which can be effective in helping the firm recover from misconduct (Coombs, 2007). In fact, in a recent study, scholars found that when firms include remedial measures in their response following values-related misconduct, outsider judgments are more positive (Dutta & Pullig, 2011).

Visible evidence of intended compliance with social norms and institutional standards of financial reporting should help the firm generate a more positive evaluation from the media following financial misconduct. As firms move away from any nonconformity that could have led to the firm's misbehavior and adopts practices that are more in line with others, they stand to positively influence external evaluations (Deephouse, 1999). When firms implement institutionalized structures designed standardize procedures (e.g., new policies or procedures that ensure timely and accurate reporting) and increase transparency and compliance, they communicate normativity, credibility, and legitimacy (Fombrun & Shanley, 1990). Gertsen et al. (2006) support this idea by explaining that by closely adhering to policies and regulations after the revelation of wrongdoing, firms can regain some of the trust that may have been lost from the initial

misconduct. In general, firms' efforts to adopt institutionalized practices or restructure in order to better comply with institutional norms should result in more favorable media response.

Restructuring internal operations to improve monitors and watchdogs is also likely to engender positive media response because it is prospective insofar as it describes activities related to the future (Ulmer et al., 2007). From this perspective, restructuring may actually reflect internal value systems and patterns of conduct (Seeger, Ulmer, Novak, & Sellnow, 2005). As such, when the firm commits significant resources to the replacement old practices with new, improved, operations, it may not only demonstrate credibility, but can also foster hope, optimism, and reassurance that the firm will demonstrate desirable behavior going forward (Gillespie & Dietz, 2009; Seeger & Ulmer, 2002). Restructuring is an outward portrayal of the firm's commitment to prevent recurrence and the firm's adherence to the rules of the institutions in which it operates. Thus, despite the negative cues derived from the acknowledgement of internal flaws via restructuring, the diagnosticity (i.e., clarity and relevance) of the firm's visible renewal efforts lead me to predict the following

*Hypothesis 4a. Following organizational misconduct, announcing an internal restructuring is positively associated with media tenor (i.e., media tenor will be less negative when the firm announces restructuring).*

Firms' restructuring efforts following misconduct likely engender positive (less negative) reactions from the investment community also. Parallel to the logic I present above, investors, too, likely perceive visible actions of renewal as an indicator of the firm's willingness and ability to establish (or reestablish) sound practices that limit the

likelihood of recurrence (Seeger & Ulmer, 2002). Likewise, improvements or refinements to firms' internal operations such that they are either more effective or more in line with others, perhaps enhances investors' evaluation of the firm's legitimacy (Deephouse, 1996), which in turn should influence its future profitability. Thus, I advance the following

*Hypothesis 4b. Following organizational misconduct, announcing an internal restructuring is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm announces restructuring).*

### **Moderating Effects of Firm Status**

Journalists' prior beliefs about a firm likely influence what they expect and notice, as well as how they interpret new information the firm provides (Fiske & Taylor, 1991; Mishina et al., 2011). The path-dependence of the firm's prior evaluations presumably leads the media to search for and interpret cues as confirming their expectations (Darley & Fazio, 1980; Hayward, Rindova, & Pollock, 2004; Nickerson, 1998). After all, individuals strive to maintain evaluative consistency regarding the targets of their judgments—they want to be “right” with regard to their evaluation of firms (Reeder & Coovert, 1986). Therefore, it is reasonable to expect that journalists filter cues that firms provide in accordance with the media's expectations of the firm. Cues from firms that are more reliable, believable, and consistent with the firm's pattern of operation are more likely to be better received. Similarly, cues that are inconsistent with the firm's patterns of operation may be less well received. One way to examine the extent to which journalists are “buying” the cues that firms offer may be to consider the status of the firm offering them.

Based on relative rank amongst peer firms, high-status firms garner above average expectations regarding their behavior and ethical standards (Giordano, 1983). For instance, outsiders often view the high-status firm as having high overall quality (Bitektine, 2011). Such firms also carry expectations about high levels of competence and credibility (Florin et al., 2003). It is because of firms' relative rank amongst their peers, and accompanying expectations about their behavior, that these firms are granted privileges (Gould, 2002; Washington & Zajac, 2005). However, with status also comes responsibilities and obligations to be a visible symbol of the competitive market's values (Hearit, 2005). Stated differently, high-status firms may be held to higher standards than their lower-status counterparts (Hamilton & Sanders, 1981). Thus, as firm status increases, so do expectations that the firm is good and will act properly and ethically (Giordano, 1983).

Though few scholars explore the nuances of the low-status firm specifically, differences between high-status actors and low-status actors have been of interest to scholars for decades (e.g., Merton, 1968). For instance, Phillips and Zuckerman (2001), explain that low-status firms do not conform to socially constructed criteria used to label high-status firms as such. The authors continue to explain that once "screened out" these nonconforming, low-status, firms are ignored (Phillips & Zuckerman, 2001). For this reason, the firm's low-status (or their exclusion from a high-status category) could override the diagnosticity of its accounts or actions. Further, claims or actions of low-status firms are likely to be considered less credible and trustworthy than similar claims or actions of high-status firms, if they are noticed at all (Benjamin & Podolny, 1999).



When high status firms deflect blame for wrongdoing, the media may be receptive. If the high status firm did not have inherent problems bringing about misconduct, the media does not have to readjust its evaluation of the firm (Reeder & Coovert, 1986). In fact, blame deflection from a high-status firm is a “category consistent” cue (Fiske & Taylor, 1991: 138). Thus, the high-status firm that explains it is not to blame for its misconduct meets the media’s expectations of high-status firms.

Conversely, the low-status firm has few expectations. Instead, it may perhaps even be ignored (Phillips & Zuckerman, 2001). In turn, blame deflection is likely also ignored and will have little effect on the media’s evaluation of the firm. In sum, I predict that status moderates the relationship between blame deflection and the media’s response to wrongdoing. Specifically, I hypothesize the following

*Hypothesis 5: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between blame deflection and media tenor.*

However, status may affect the media differently for firms accepting blame, as opposed to deflecting blame, for misconduct. For high-status firms, internal attribution of misconduct is a category-*inconsistent* cue (Fiske & Taylor, 1991). An inconsistent cue likely creates a discrepancy between how the media thought the high-status firm would behave and how the firm actually behaved (Reeder & Coovert, 1986). Specifically, when a high-status firm accepts responsibility for wrongdoing, it violates the media’s higher-than-average expectations of the firm’s ethical standards (Giordano, 1983). Although individuals may hold blame acceptance in high regard in many social contexts, doing so for integrity violations is unique because it essentially reduces information asymmetry by

revealing negative information about the firm (Kim et al., 2004; Schlenker, 1980). High-status firms' blame acceptance may be especially disappointing because these firms are "held to stricter moral or legal standards" (Hamilton & Sanders, 1981: 241). This sort of expectancy violation could prompt severe negative reaction by external evaluators (Bettencourt et al., 1997; Burgoon, 1993; Kernahan et al., 2000).

When the media comes upon cues about the fundamentals of the firm that are inconsistent with its prior view of it, they will reevaluate the firm in light of the new information (Fiske & Taylor, 1991). Statements in which the firm attributes its misconduct to internal causes are relevant and clear, which contribute to their diagnosticity (i.e., usefulness in coming to a conclusion). Although firms almost certainly intend to send positive cues about trust repair by accepting blame, there may be negative cues embedded in this type of verbal account (e.g., the firm must be bad because it did a bad thing) that lead journalists to revise their view of the firm downward to resolve this inconsistency. This is because the media are likely to weight negative cues greater than the positive cues (Hollander, 1961; Reeder & Coovert, 1986). Even the "stored up goodwill" of a high-status firm is unlikely to win over negative cues (Mishina et al., 2011). Issuing a statement that suggests the cause of wrongdoing is internal to the firm, even if it is embedded in an apology, for a high-status firm, is tantamount to admitting "out-of-role behavior" (Jones, Davis, & Gergen, 1961). Consistent with ideas advanced by Birnbaum (1972), I expect the media will judge such firms by their worst deed. Thus, when the high-status firm accepts blame I expect the media's response to be negative.

In contrast, low status firms have little to lose if misconduct is confirmed (Phillips & Zuckerman, 2001). Low-status firms' blame acceptance for the firm's misconduct does

not violate the media's expectations (or lack thereof) of the low-status firm. These firms are held to lower standards, or may even be "screened out" such that the media does not even notice this admission. If a low-status firm's blame acceptance is noticed, it is unlikely to prompt reaction because acknowledgement of substandard behavior of a low-status firm is consistent with the expectations of this type of firm. Thus, I hypothesize the following

*Hypothesis 6: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between blame acceptance and media tenor.*

In addition to changing the effects of explanatory framing cues, firm status may also be consequential to a firm's cues of corrective action. For instance, I expect that executive succession in the wake of organizational misconduct could be more effective for high-, as compared to low-, status firms for a number of reasons. First, in their search for the cause of wrongdoing, the media is likely to seek out evidence that confirms their previous evaluation of the firm (Nickerson, 1998). Executive succession visibly shifts blame away from the firm and onto a single executive, allowing the media to maintain evaluative consistency for high-status firms. Much like a verbal deflection of blame, scapegoating an executive helps the high-status firm avoid responsibility for the transgression, which is consistent with the media's expectations of the firm. The high-status firm's position is relatively unchallenged when it scapegoats an executive because wrongdoing is essentially isolated to a single individual or, perhaps, a small group of individuals if more than one member of the TMT is released. Scapegoating also suggests that once the high-status firm purges negative influences, it should return to its previous

state and garner social esteem and positive evaluations similar to the time before any wrongdoing surfaced (Seeger & Ulmer, 2002; Suchman, 1995). Thus, I expect the media to react favorably to executive succession in high-status firms following misconduct.

In contrast, I predict executive succession in a low-status firm following misconduct will be less effective because the media could view this attempt to mitigate negative consequences as lacking credibility (Benjamin & Podolny, 1999; Phillips & Zuckerman, 2001). Unlike a high-status firm, the low-status firm fails to meet socially constructed criteria of overall quality (Shipilov & Li, 2008). Therefore, it is likely to be unconvincing that the firm's shortcomings are limited to a single source. Thus, I predict:

*Hypothesis 7: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between announcing the dismissal a top executive and media tenor.*

Firm status may also be an important moderator of organizational restructuring as a corrective action cue. Specifically, the firm's recognition of its own flawed internal practices could be especially detrimental to high-status firms. The logic here is akin to that of blame acceptance. Specifically, by announcing an internal restructuring in response to corporate misconduct, firms admit guilt and acknowledge internal flaws. For high status firms, this new information about the firm's inherent problems violates the media's high expectations for the firm's standards of behavior (Floyd et al., 1999). Despite potentially positive long-term outcomes of restructuring (Dutton & Jackson, 1987; Seeger & Ulmer, 2002; Wan & Yiu, 2009), the inherent admission of fault and problems constitutes a violation of category-based expectations for high-status firms. This could lead to negative responses among external evaluators (Weber & Mayer, 2011).

Thus, although there may be long-term benefits to restructuring after a firm has experienced misconduct, I suggest the media could react negatively when high-status firms announce such intentions.

Restructuring efforts of low-status firms, on the other hand, may engender more positive (less negative) responses from the media as they provide visible evidence of the low-status firm's willingness and ability to make positive, normative changes (Rindova et al., 2006). Different from a verbal account, this sort of observable action is highly diagnostic and is less likely to be ignored, even if the firm is of low status. Thus, as low status-firms adopt behaviors or practices that are more in line with others in the market, they stand to increase their legitimacy (Deepphouse, 1999). Doing so should not only engender a positive response from the media, but the positive violation of expectations of this type of firm may contribute further to the media's positive (less negative) response (Weber & Mayer, 2011). Therefore, I posit that firm status may change the nature of the relationship between announcement of an internal restructuring following misconduct and the tenor of media coverage. Specifically, I predict the following

*Hypothesis 8: Following organizational misconduct, firm status negatively moderates (i.e., attenuates) the relationship between announcing an internal restructuring and media tenor.*

### **Partial Mediating Effect of Media Tenor on the Sensegiving Efforts and Investor Reaction Relationships**

Investors constantly have to manage the uncertainty that unexpected events typically generate (Haunschild, 1994; Podolny, 1993; Podolny, 1994). In doing so, they rely on a variety of information processing and decision making mechanisms (Scheufele,

Haas, & Brosius, 2011). Though investors' evaluations are certainly based, in part, on their direct observation of firm cues, investors also evaluate the firm in consideration of evaluations other people make (Rindova, Williamson, Petkova, & Sever, 2005). Specifically, they often rely, in part, on information that sources like the media provide to them when evaluating firms (Tetlock et al., 2008). Investors do this because they often lack direct experiences with the firm and can rarely incur the cost of exhaustive information search for all of the possible firms in their investment universe (Barber & Odean, 2008; Pollock et al., 2008; Zuckerman, 1999).

As a social arbiter, the media helps investors deal with uncertainty by providing an assessment of the firm and its actions (Cyert & March, 1963; Pollock & Rindova, 2003; Rao, Greve, & Davis, 2001). The media tell investors what they do not always have the opportunity to experience directly, and therefore can influence their social construction of reality (Deepphouse & Heugens, 2009). Specifically, the media "help us make sense of companies' complex activities," such as their misconduct and subsequent sensegiving efforts (Fombrun, 1996: 136). To do so, the media present narratives or "storyboards" to help their readers, including investors, make sense of specific events or firm activities (Vaara, Tienari, & Laurila, 2006). Investors use the narratives the media presents as guidance for their interpretation of the firm and its actions and its own subsequent actions (i.e., investment choices) (Boudes & Laroche, 2009).

Organizational misconduct constitutes one such time of uncertainty wherein investors' may supplement their own interpretation of available cues by looking to information intermediaries for guidance. The way the media frames the misconduct can influence the way investors view the organization. The media provides its audience with

visible approval (disapproval) of the firm (Elsbach, 1994; Pollock & Rindova, 2003). Their evaluation of the firm serves as “social proof” of the firm’s underlying qualities (Rao et al., 2001). Thus, following the exposure of organizational wrongdoing and firms’ attempts to manage their external evaluations, investors may manage the heightened uncertainty about the organization and its future by drawing on, or imitating, the evaluations provided by the media rather than constructing their own interpretation of the firm and its actions (Pollock & Rindova, 2003). Similar behavior among investors is often called “herd behavior”, but scholars have recently shown this tendency in response to media opinions (Chiang & Zheng, 2010; Pollock et al., 2008; Scharfstein & Stein, 1990). Therefore, I postulate that media tenor partially mediates the relationship between the firms’ sensegiving cues and investors’ behaviors. Formally,

*Hypothesis 9: Following organizational misconduct, media tenor partially mediates the relationship between firms’ explanatory framing and corrective actions and investor reaction; as media tenor is more positive (negative), investor reaction is more positive (negative).*

### **Moderating Effect of Media Attention**

Lastly, I expect the media’s tenor will work together with the amount of attention the media devotes to the misconduct to jointly influence investor reaction. Media attention influences investors’ awareness of certain issues. Investors have bounded rationality and cannot attend to all available information (Arthur, 1994; March, 1978; Simon, 1982). For this reason, investors’ activity reflects which firms grab their attention (Barber & Odean, 2008; Odean, 1999; Pollock et al., 2008). By way of the amount of its coverage (i.e., attention), the media can influence which firms spark the interest of

investors (Odean, 1999). Through the amount of coverage of a given event or firm, the media offers insight into the importance of a particular firm or event (McCombs & Shaw, 1972). When media tenor is strongly negative but media attention is low, investors may not be particularly attuned to or concerned with the negative tenor (Rhee & Haunschild, 2006). When media tenor is less negative or neutral but media attention is high, investors are more likely to take notice but less likely to take action because the media is sending no strong message. However, when media tenor is strongly negative and media attention is high, I expect investors will have the most visible reaction.

Research on the availability bias supports this idea (Rao et al., 2001; Sunstein, 2004). When information, or in this case evaluations likely reflected in the media's tenor, are more widely available, it creates "availability cascades" that could increase investors' tendency to perceive these evaluations as plausible (Kuran & Sunstein, 1999). From this perspective, investors will be more likely to incorporate evaluations that are more numerous, more frequent, or generally more available, into their own conclusions about the firm (Kahneman, Slovic, & Tversky, 1982; Sunstein, 2002). This will be especially important when media tenor is strongly negative, which suggests a strongly negative evaluation, because investors will not only be receiving a clearly negative message but they will be receiving it in abundance. Therefore, I hypothesize the following

*Hypothesis 10: Following organizational misconduct, media attention positively moderates (i.e., amplifies) the relationship between media tenor and investor reaction; the relationship is more positive when media attention is high.*

Table 1 provides a list of all study hypotheses.



**Table 1. Hypotheses for Examining the Media’s Response to Organizational Wrongdoing and its Subsequent Influence on Shareholder Reaction.**

<b>Hypothesis</b>
Hypothesis 1a: Following organizational misconduct, blame deflection is positively associated with media tenor (i.e., media tenor will be less negative when the firm deflects blame).
Hypothesis 1b: Following organizational misconduct, blame deflection is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm deflects blame).
Hypothesis 2a: Following organizational misconduct, blame acceptance is negatively associated with media tenor (i.e., media tenor will be even more negative when the firm accepts blame).
Hypothesis 2b: Following organizational misconduct, blame acceptance is negatively associated with investor reaction (i.e., investor reaction will be even more negative when the firm accepts blame).
Hypothesis 3a: Following organizational misconduct, announcing the dismissal of a top executive is positively associated with media tenor (i.e., media tenor will be less negative when the firm dismisses a top executive).
Hypothesis 3b: Following organizational misconduct, announcing the dismissal of a top executive is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm dismisses a top executive).
Hypothesis 4a: Following organizational misconduct, announcing an internal restructuring is positively associated with media tenor (i.e., media tenor will be less negative when the firm announces restructuring).
Hypothesis 4b: Following organizational misconduct, announcing an internal restructuring is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm announces restructuring).
Hypothesis 5: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between blame deflection and media tenor.
Hypothesis 6: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between blame acceptance and media tenor.

Hypothesis 7: Following organizational misconduct, firm status positively moderates (amplifies) the relationship between announcing the dismissal a top executive and media tenor.

Hypothesis 8: Following organizational misconduct, firm status negatively moderates (i.e., attenuates) the relationship between announcing an internal restructuring and media tenor.

Hypothesis 9: Following organizational misconduct, media tenor partially mediates the relationship between firms' explanatory framing and corrective actions and investor reaction; as media tenor is more positive (negative), investor reaction is more positive (negative).

Hypothesis 10: Following organizational misconduct, media attention positively moderates (i.e., amplifies) the relationship between media tenor and investor reaction; the relationship is more positive when media attention is high.

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## **CHAPTER 4: METHOD**

### **Sample and Data Collection**

I tested the relationships I proposed on a sample of publicly traded firms listed on the S&P 1500 index, which includes all firms in the S&P500 large-cap, S&P 400 mid-cap, and S&P 600 small-cap, that announced material financial restatements between 1997 and 2012. I selected this set of firms because they represent approximately 91 percent of the U.S. market capitalization and thus reflect a universe of tradable stocks (S&P Dow Jones Indices, 2013). Also, I selected this sampling window so that I could include restatements from before and after the failure of Enron due to accounting fraud and the passing of the Sarbane's Oxley Act of 2002 as well as the financial crisis of 2008, all of which were influential events with regard to the regulation and expectations of firms' financial reporting (Kang, 2008).

A material financial restatement often serves as a proxy for organizational misconduct because it indicates that the firm's prior financial reports are untrustworthy due to major accounting violations (Stanley & Todd DeZoort, 2007). Financial restatements correct accounting irregularities, which the General Accounting Office (GAO) defines as "aggressive accounting practices, intentional and unintentional misuse of facts applied to financial statements, oversight or misinterpretation of accounting rules and fraud." Firms do not use material financial restatements to correct routine inconsistencies resulting from procedural changes, but instead grievous

misrepresentation. According to Schipper (1989: 92), material financial restatements often reflect “a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain.” Thus, scholars often use samples of restatement firms to examine “misconduct” (Harris & Bromiley, 2007), “misrepresentation” (Cowen & Marcel, 2011), and “corrupt behavior” (Zhang, Bartol, Smith, Pfarrer, & Khanin, 2008). Firms that restate their financial reports are different than those suffering from poor performance, which may result from leaders’ honest mistakes or external factors, because they “constitute a more direct breach of stakeholder trust” (Arthaud-Day et al., 2006: 1121). A material financial restatement likely reflects, at least in part, a firm’s lack of integrity (i.e., adherence to and acceptance of some set of values or principles) (Kim et al., 2004; McFall, 1987).

To identify restatement firms, I collected data from the Financial Statement Restatement Database and a manual search of press releases via Lexis Nexis. The Financial Statement Restatement Database is a comprehensive listing of firms filing a material financial restatements due to accounting irregularities from 1997 through 2006 (GAO, 2002, 2006). This database does not include restatements resulting from normal business activity such as minor accounting changes or adjustments to data presentation. Several other studies of firm restatements (Desai et al., 2006; Harris & Bromiley, 2007; Pfarrer, Smith, Bartol, Khanin, & Zhang, 2008b) also use this database. I manually searched for data on restatements in press releases available in the Lexis Nexis database. This manual search of restatements was necessary because the GAO database only encompasses restatement announcements between January 1, 1997 and June 30, 2006. To identify restatements between July 1, 2006 and December 31, 2012, I followed the

criteria clearly outlined by the GAO<sup>4</sup> for identifying material financial restatements announcements of S&P 1500 firms. In the instance that a firm announced more than one restatement within the sample window, I used the firm's first announcement. This data collection yields 745 observations (i.e., firms listed on the S&P 1500 that announce a restatement between 1997 and 2012). To confirm my identification of restatement announcements, an independent rater coded one year (2012) of restatements. Agreement between us for this subsample using the intraclass correlation coefficient (ICC) was 0.87, which exceeds the minimum standard 0.70 suggested by Nunnally (1978) and is common among other management scholars (Ferris et al., 2005; Hambrick & Abrahamson, 1995; McAllister & Bigley, 2002; Schaubroeck et al., 2012; Sonenshein, 2006).

I also collected data from firm-issued press releases and media reports available via Lexis Nexis. Specifically, for variables regarding media coverage (i.e., tenor and attention), I used the Lexis-Nexis database to identify articles available about the focal firm published in "Major World Publications," "Newspapers," and "Magazines" within 30 days following the firm's restatement announcement ( $t-30$ ) (Pollock & Rindova, 2003). Some firms did not receive any media coverage within this 30-day window;

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<sup>4</sup> Using Lexis Nexis the GAO performed a key word search using "restate" and its variations as well as the terms "adjust" "revise" and "amend" within 50 words of "financial statement" or "earnings" to identify restatements. The GAO's database excludes restatements that resulted from "normal corporate activity or simple presentation issues" (GAO, 2006: 54), which includes restatements resulting from mergers and acquisitions, discontinued operations, stock splits, issuance of stock dividends, currency-related issues (e.g., converting from Canadian dollars to U.S. dollars), changes in business segment definitions, changes due to transfers of management, changes made for presentation purposes, general accounting changes under generally accepted accounting principles (GAAP), litigation settlements, and arithmetic and general bookkeeping errors. It also excludes restatements resulting from policy changes. Notably, the GAO includes restatements regardless of its impact (positive or negative) on the restating firm's financials (GAO, 2002, 2006).

however, I still included the firm in the sample as this does not indicate missing data, but rather a true indicator of the firms' media tenor and attention following misconduct.

I collected data about firms' explanatory framing and corrective actions from firm-issued press releases that companies disseminated through PR Newswire and Business Wire during the 30-day window beginning with the restatement announcement (i.e., the same period in which I collected media reports) and are available via Lexis Nexis. Press releases are reports that firms and the media view as an important tool for issuing statements or announcements of forward-looking actions (Carroll & McCombs, 2003; Kennedy, 2008). Business Wire and PR Newswire are two leading sources for press releases that companies use to disseminate information about their actions (Zavyalova et al., 2012).

I used content analysis to capture media tenor and firms' explanatory framing and corrective actions. Content analysis is any methodological measurement researchers apply to text and reflects "a class of methods at the intersection of qualitative and quantitative traditions" (Duriau, Reger, & Pfarrer, 2007: 5). By using content analysis, scholars can tap into the cognitions of the author or speaker (Gephart Jr, 1993; Huff, 1990; Woodrum, 1984). For instance, researchers use content analysis to shed light on managerial attention (Abrahamson & Hambrick, 1997), executives' attribution of poor performance (Staw, McKechnie, & Puffer, 1983), and, particularly pertinent to the current study, firms' sensegiving activities (Gioia & Chittipeddi, 1991).

I used *Fortune Magazine's* Most Admired Corporations list to capture data regarding firms' status (Lin et al., 2009; Still & Strang, 2009). *Fortune Magazine* has published this list every year since 1982. *Fortune* ranks companies within industries

according to various attributes such as quality of management, environmental responsibility, and wise use of corporate assets. The rankings capture evaluations from several different constituencies such as senior executives, directors, and analysts.

Finally, I used Compustat, RiskMetrics, and Thomson Reuters databases to collect my second dependent variable, investor reaction, and additional control variables (I describe each below and list them in Table 2). Additionally, to gather data on an alternative measure of investor reaction, I used Eventus, an event-study software, to collect firms' abnormal returns. Of the 745 original restatement firms, 504 have complete Compustat data. Of these 504 observations, 359 have complete Riskmetrics data. Missing data from data collection via Thompson Reuters and Eventus reduced the sample by another 15 observations yielding a sample of 344 observations with complete data.

## **Measures**

*Dependent variables.* My first dependent variable is the *media tenor* regarding the focal firm following its restatement announcement. I used the Lexis-Nexis database to identify articles available about the focal firm published in “Major World Publications,” “Newspapers,” and “Magazines” (Pollock & Rindova, 2003) across the 30 days following the firm's restatement announcement ( $t - 30$ ). To ensure meaningful content, I limited my search to articles mentioning the focal firm in the headline or lead paragraph and excluded articles less than 50 words long. I also excluded articles that mention more than four firms other than the focal firm to ensure the overall tenor of the article is associated with the focal firm (Bednar, 2012). This search criterion yields 2,754 media reports for 344 restatement firms.

**Table 2. List of Model Variables**

Study Variable	Operationalization	Primary data source	Key references
<i>Dependent variables</i>			
Tenor of media coverage	Janis-Fadner coefficient of imbalance	Lexis Nexis	Deephouse, 2000; Pferrar, Pollock, & Rindova, 2010; Pollock & Rindova, 2003
Investor reaction	Total stock market returns	Compustat	Fiss & Zajac, 2006
<i>Independent variables</i>			
Blame deflection	Computer-aided text analytic scores (from DICTION software) assigned to the custom language dictionary of “blame deflection”	Lexis Nexis	Short & Palmer, 2008
Blame acceptance	Computer-aided text analytic scores (from DICTION software) assigned to the custom language dictionary of “blame acceptance”	Lexis Nexis	Kelley, 1980; Short, Broberg, Cogliser, & Brigham, 2010; Weiner, 1986
Executive succession	Coded 1 if the firm announces a CEO <i>or</i> CFO departure, 0 otherwise	Lexis Nexis	Arthaud-Day, Certo, Dalton & Dalton, 2006; Desai, Hogan, & Wilkins, 2006; Gangloff, Connelly, & Shook, 2013
Restructuring	Coded 1 if the firm announces restructuring activities, 0 otherwise	Lexis Nexis	Pfarrer, Decelles, Smith, & Taylor, 2008; Zavyalova, Pfarrer, Reger, & Shapiro, 2012



Study Variable	Operationalization	Primary data source	Key references
Status	Coded 1 if the firm is on the Most Admired Corporations list, 0 otherwise	<i>Fortune Magazine's</i> Most Admired Corporations list	Lin, Yang, & Arya, 2009; Still & Strang, 2009
Media attention	Total number articles about the focal firm	Lexis Nexis	Fiss & Zajac, 2006; Pollock & Rindova, 2003; Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2012
<i>Firm-level control variables</i>			
Firm size	Log of revenue	Compustat	Drnevich & Kriauciunas, 2011; Nickerson & Silverman, 2003
Firm performance	Return on assets (ROA)	Compustat	Chatterji & Toffel, 2010; Shen & Cannella, 2002
Board ownership	Natural log of the percentage of total shares owned by the BOD	Risk Metrics	Schnatterly, 2003
Ownership concentration	Natural log of the Hirfindahl-Hirschman (HH) concentration index (the sum of squared ownership stakes)	Thomson Reuters	Baginski & Rakow, 2012; Huyghebaert & Luypaert, 2010; Schnatterly, 2003; Tawatnuntachai & D'Mello, 2002
Credibility	Total number of years restated	Lexis Nexis	Palmrose et al., 2004
Prior tenor	Janis-Fadner coefficient of imbalance	Lexis Nexis	Deephouse, 2000; Pferrar, Pollock, & Rindova, 2010; Pollock & Rindova, 2003
<i>Industry-level control variables</i>			
Munificence	Antilog of the regression slope coefficient for net sales over time for five years across all firms in the industry	Compustat	Keats & Hitt, 1988
Dynamism	Antilog of the standard error of the same	Compustat	Keats & Hitt, 1988

Study Variable	Operationalization	Primary data source	Key references
Complexity	regression used to calculate munificence Slope coefficient of the regression of the terminal-year market shares of all firms in the industry upon their shares in the initial year	Compustat	Keats & Hitt, 1988
Industry wrongdoing	Three-year industry average number of firms that announce a restatement prior to the focal firm's restatement announcement	GAO	Kang, 2008; Zavyalova, Pfarrer, Reger, & Shapiro, 2012
<i>Other control variables</i>			
PostSOX	Coded 1 if the firm announced restatement in 2002 or later, 0 otherwise	GAO	Boubakri, Cosset, & Samet, 2010

I analyzed the content of each article during this 30-day window using the Linguistic Inquiry and Word Count (LIWC) software, a text analysis software designed to determine the rate at which authors or speakers use words connoting positive or negative emotion in a given text (Pennebaker, Booth, & Francis, 2007). LIWC is increasing in popularity amongst strategic management scholars as evidenced by its use in several recent studies in prominent management journals (Bednar, 2012; Benjamin, Reger, & Pfarrer, 2012). LIWC analyzes written text on a word-by-word basis and calculates the percentage words in the text match each of its 82 language dimensions; the complete LIWC dictionary includes approximately 4,500 words and word stems (for further description of the reliability and external validity of LIWC results, c.f. <http://liwc.net/liwcdescription.php>).

The LIWC measures affective content as the percentage of words in the text that match the words in the affective content library; it also provides a breakdown of the percentage of words that match the negative emotion library and the percentage of words that match the positive emotion library. Similar to other authors, I coded each article as positive, negative, or neutral based on its percentage of positive and negative emotional content (Deepphouse, 2000; Pfarrer et al., 2010; Pollock & Rindova, 2003). Specifically, I coded each article as “positive” if its total affective content was at least 60 percent positive and “negative” if its total content was at least 60 percent negative (Pfarrer et al., 2010). I coded articles falling between these cut-offs as “neutral.” Although this has the appearance of losing information owing to variable trichotomization, scholars favor this approach because it facilitates use of the conceptually meaningful Janis-Fadner (JF)

coefficient of imbalance, which I describe below (Deephouse, 1996). As robustness checks, I also describe below three alternative operationalizations for media tenor, one of which relies on raw scores.

Using the coded articles, I measured media tenor associated with each firm in the sample using the JF coefficient of imbalance. Many scholars have used the JF coefficient of imbalance to assess media tenor or comparable constructs (Deephouse, 1996, 2000; Pfarrer et al., 2010; Pollock & Rindova, 2003; Westphal, Park, McDonald, & Hayward, 2012). Generally, the JF coefficient of imbalance measures the relative proportion of positive to negative articles while controlling for the overall volume of articles.

Specifically, this coefficient includes two main factors: the weighted average presentation (i.e., positive or negative) of relevant content and the relative frequency of the positive or negative content (i.e., the extent to which the total content was utilized to present positive or negative content) (Janis & Fadner, 1943). It allocates heavier weight to articles that are strongly positive or strongly negative. Furthermore, the JF coefficient of imbalance is non-linear such that the addition of a positive or negative article to the total number of articles results in a greater increase in the coefficient's absolute value than the previous article of the same valence (i.e., the same tenor). In other words, tenor builds on itself. Once the tenor of media coverage is positive or negative, increases in the proportion of articles of the same tenor will matter more than the previous article. This is important because once media coverage is of some degree positive or of some degree negative, articles of the same tenor begin to confirm and affirm each other. Therefore, I calculated the JF coefficient of imbalance using the following formula:

$$\text{JF Coefficient of Imbalance} = \begin{cases} (P^2 - PN)/(V)^2, P > N \\ 0, P = N \\ (PN - N^2)/(V)^2, N > P \end{cases}$$

Where P is the number of positive articles about the focal firm following its restatement announcement, N is the number of negative articles about it, and V is the total volume of articles about it, including “neutral” articles. The range of this variable is -1 to 1, where -1 equals “all negative coverage” and 1 equals “all positive coverage.” This coefficient has a meaningful zero point when there are an equal number of positive and negative articles about a firm, will decrease when the number of negative articles increases and will increase when the number of positive articles increases (Deephouse, 1996; Janis & Fadner, 1943; Lee & Paruchuri, 2008).

My second dependent variable is *investor reaction*, which is a market-based measure of performance (Bednar, 2012; Boivie, Lange, McDonald, & Westphal, 2011). Generally, market-based measures of performance represent investors’ evaluations of a firm’s ability to generate future economic earnings rather than representing past performance (McGuire, Sundgren, & Schneeweis, 1988). Following Fiss and Zajac (2006), I measured investor reaction as total stock market returns, defined as capital gains plus dividends, at the end of the 30-day window beginning with the restatement announcement (t+30). Stock prices are future oriented and reflect investors’ perceptions of the firm’s potential to create long-term returns (Seifert, Morris, & Bartkus, 2004). Consequently, stock market returns are “one of the most widely used measures of firm performance regarding shareholder interests,” (Fiss & Zajac, 2006: 1180). I describe an

alternative operationalization for investor reaction in the robustness checks section below.

***Independent variables.*** I measured each firm's *blame deflection* as a single variable that captures the firm's external attribution of blame for its restatement. I measured this in the firm's initial press release on the day of the announcement of the firm's restatement to ensure that the language connoting blame deflection is not only associated with the restatement announcement, but is also indicative of how firms' attempt to frame their actions as the information regarding the restatement goes public. To construct this variable, I used DICTION Software (Hart, 2010).

DICION is a computer-aided text analysis (CATA) software that analyzes narratives to identify word usage patterns and differences between passages. It assigns scores for specific variable dictionaries. DICTION includes 31 established word lists that make up six unique master variables. However, it does not include a word list for blame deflection. Therefore, I developed a custom library for this variable. Like other management scholars (Moss, Short, Payne, & Lumpkin, 2011; Payne, Brigham, Broberg, Moss, & Short, 2011) and per the recommendation of Short, Broberg, Coglisier, and Brigham (2010), I used a deductive approach wherein I developed a word list and applied it to the firms' press releases.

Short et al. (2010) provide a four-step process for this deductive approach: (1) create a working definition of the construct of interest (use *a priori* theory when possible), (2) assess construct dimensionality based on existing literature, (3) develop an exhaustive list of key words from the formal definition to capture the construct of interest (if the construct is hypothesized to be multidimensional, create multiple discrete word

lists for each subdimension), and (4) validate word lists using content experts and assess rater reliability.

Following these steps, I developed a working definition of blame deflection drawing from theory and other scholars' definitions (e.g., Kelley & Michela, 1980). I define blame deflection as "as any statement that suggests the cause of organizational misconduct is not systemic to the firm." Using this definition, I assessed the dimensionality of blame deflection and developed word lists based on this assessment. I used Rodale's (1978) book: *The Synonym Finder*, an exhaustive book of synonyms that scholars commonly use in semiotic research (Markel, 1998; Payne et al., 2011; Zachary, McKenny, Short, & Payne, 2011), as well as a manual search online to develop the discrete word list for blame deflection. Two independent judges evaluated the word lists. I assessed inter-rater reliability according to Holsti (1969). Specifically, I used the formula:  $(PA_o = 2A/n_A+n_B)$  where  $PA_o$  is the proportion agreement observed,  $A$  is the number of agreements between the two raters, and  $n_A$  and  $n_B$  are the number of words coded by the two raters to assess reliability. While there is no "rule of thumb" regarding inter-rater reliability coefficients, Krippendorff (2004) suggests that values greater than .80 are indicative of high reliability. With an inter-rater reliability of 0.92, reliability between the independent judges is more than acceptable.

Similar to the measure of blame deflection, I constructed a custom library for *blame acceptance* and used DICTION Software to capture it in the firm's initial press release on the day the firm announces a restatement. Consistent with previous scholars (Moss et al., 2011; Payne et al., 2011) and the construction of the custom library of blame deflection I describe above, I used a deductive approach to develop the library for blame

acceptance. Following this approach, I developed a word list and then applied it to the firms' press releases. I mimicked the four-step process Short et al. (2010) provide and that I used to construct the custom library for blame deflection. I assessed inter-rater reliability according to Holsti (1969). Again, inter-rater reliability was acceptable at 0.96. I provide the entire word lists for blame deflection and blame acceptance in Appendix D.

I captured executive succession announcements by manually coding data from firm-issued press releases and media articles within the 30-day window beginning with the restatement announcement ( $t-30$ ). Research indicates that Chief Executive Officer (CEO) and Chief Financial Officer (CFO) turnover is common following restatement (Arthaud-Day et al., 2006; Desai et al., 2006). *Executive succession* is a binary variable such that 1 indicates that the focal firm announces a turnover of a person holding the title of CEO or CFO, zero otherwise. (Agrawal, Jaffe, & Karpoff, 1999).

My next independent variable is *restructuring*, which I captured by manually coding firm announcements in firm-issued press releases. Relatively few studies consider firms' targeted restructuring activities in the wake of organizational misconduct, so there is little precedent for coding such activities. However, I coded firms' restructuring announcements using structured content analysis. I considered *a priori* theory to develop a list of firm actions or statements that alluded to actions that could reduce the likelihood of the recurrence of misconduct. Specifically, I considered all of the following actions to be restructuring: hiring a chief ethics officer or compliance officer, creating an ethics or compliance committee, increasing the size of the board of directors, increasing the percentage of outsiders on the board of directors, and any mentioning of a "change," "improvement," or "enhancement" of policies, practices, or procedures that the firm



explicitly states should or could reduce the risk of financial misrepresentation recurrence. Using this list, I coded firms' press releases across the 30-day period following their restatement announcements ( $t-30$ ). I measured restructuring as a binary variable where a 1 indicates that the focal firm announces restructuring efforts in this 30-day window, zero otherwise. To ensure reliability, an independent rater coded a 10 percent random subsample (i.e., 35 firms' press releases) and I calculated inter-rater reliability between the independent coder and me. Inter-rater reliability is 0.89, which exceeds the minimum standard of 0.70 suggested by Nunnally (1978).

I used the *Fortune Magazine's* survey of America's Most Admired Corporations to measure *firm status* (Lin et al., 2009; Still & Strang, 2009). Inclusion on *Fortune's* Most Admired Corporations list is public certification of the firm's societal status (Lin et al., 2009). It captures high levels of prestige (Carmeli, 2005) and provides "a competitive benchmark that is used to define the company's status," (Dowling, 2004: 196). Thus, I dummy coded each firm as 1 if it appeared on the Most Admired Corporations list in the year prior to the firm's restatement announcement and zero otherwise. I describe an alternative operationalization for firm status in the robustness checks section below.

*Media attention* is the amount of media attention the firm receives (Amenta, Caren, Olasky, & Stobaugh, 2009; Barakso & Schaffner, 2006). Numerous management scholars have studied this or comparable constructs (Fiss & Zajac, 2006; Pollock & Rindova, 2003; Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2012). In line with this scholarship, I measured media attention as the total number articles published about the focal firm across the 30 days following its restatement announcement ( $t-30$ ). I mean

centered this variable to account for potential multicollinearity with other study variables (e.g., media tenor).

**Control variables.** I controlled for a variety of firm-level variables that could influence both the media coverage of the focal firm and investors' evaluation of it. First, the size of the firm may affect the amount and type of attention it receives from the media—smaller firms may be able to better avoid public scrutiny and generally receive lower levels of media attention (Fiss & Zajac, 2006; Meznar & Nigh, 1995; Pfeffer & Salancik, 1978). Further, previous research shows that firm size affects reaction to financial information (Collins, Kothari, & Rayburn, 1987; Freeman, 1987). Therefore, I controlled for *firm size* using the log of revenue (Drnevich & Kriauciunas, 2011; Nickerson & Silverman, 2003). Firm performance is also likely to be important in both the media's and investors' evaluation of the firm (Shen & Cannella, 2002), so I also controlled for *firm performance* as return on assets (ROA) (Chatterji & Toffel, 2010). I measured firm size and firm performance at the end of the quarter before the firm's announcement. I also controlled for ownership structure. Specifically, I controlled for *board ownership*, measured as the natural log of the percentage of total shares owned by the board, since this could indicate the sincerity of the firm's corrective efforts and signals long-term earnings potential (Connelly, Hoskisson, Tihanyi, & Certo, 2010; Schnatterly, 2003). I applied the natural log transformation to correct for skewness and kurtosis. Additionally, I controlled for *ownership concentration* using the Hirfindahl-Hirschman (HH) concentration index, which is the sum of squared ownership stakes (Huyghebaert & Luypaert, 2010). After evaluating skewness and kurtosis, I also applied a natural log transformation to this variable (Baginski & Rakow Jr, 2012; Tawatnuntachai

& D'Mello, 2002). Additionally, I controlled for *credibility*. I used a measure of misconduct pervasiveness to capture the firm's credibility. The firm's misconduct pervasiveness could affect the media's and investors' perception of the overall quality and credibility of the firm (Palmrose, Richardson, & Scholz, 2004) and, in turn, could influence the efficacy of the firm's sensegiving activities. Thus, I measured credibility as the number of years the firm restated as announced in the first restatement announcement in the sampling window. Finally, I controlled for the focal firm's media tenor prior to the announcement of its misconduct with a variable called *prior tenor*. I measured this as the JF coefficient of imbalance using the 60 percent cutoff for the trichotomization of media reports, consistent with my first dependent variable, but drawing from reports published across the 30 days prior to the announcement of a firm's restatement (t-30-t).

Characteristics of the industry as well as the actions of firms' intra-industry competitors may also influence the media coverage of a particular firm and investors' perceptions of it following wrongdoing. Therefore, I controlled for industry munificence, dynamism, and complexity according to operationalizations provided by Keats and Hitt (1988). *Munificence* is the antilog of the regression slope coefficient for net sales over time for five years across all firms in the industry. *Dynamism* as the antilog of the standard error of the same regression. *Complexity* is the slope coefficient of the regression of the terminal-year market shares of all firms in the industry upon their shares in the initial year, which suggests increasing or decreasing monopoly power in the industry. Further, based on results that indicate reputational spillovers following misconduct (Kang, 2008) and safety-in-numbers effects (Ahmadjian & Robinson, 2001; Sanders & Tuschke, 2007), I controlled for the amount of wrongdoing in the focal firm's

industry. I measured *industry wrongdoing* as the three-year average number of firms that announce a restatement prior to the focal firm's restatement announcement within the focal firm's two-digit SIC code.

With a dummy variable labeled *PostSOX*, I also controlled for whether the restatement announcement occurred before or after passage of the Sarbanes Oxley Act (SOX) of 2002 that mandated stricter financial reporting (Boubakri, Cosset, & Samet, 2010). In Table 2, I provide a summary of each primary study variable.

### **Robustness Checks**

*Alternative operationalizations of tenor of media coverage.* I tested alternative operationalizations of media tenor to the one described above to ensure robust results. First, I created an operationalization that is equivalent to the primary operationalization but uses different cutoffs for the coding of articles. For this measure, I coded each article as “positive” or “negative” at the 55 and 75 percent levels of positive (negative) affective content (Pfarrer et al., 2010). Using these classifications, I calculated the JF coefficient of imbalance.

Second, I reran the analysis using a measure of media tenor that considers the mean raw score (i.e., percentage of words from the specified library found in the text) for the positive emotion category from all articles about the focal firm in the 30-day window and the mean score for the negative emotion category (Bednar, 2012). I used these scores to calculate a ratio of positive to negative affective content. This operationalization allows me to avoid trichotomizing each article and retains all information about the affective content of media coverage, though it does not benefit from the more complex

weighting of the JF index (Baumeister et al., 2001). In sum, I tested the model using three alternative operationalizations of media tenor.

*Alternative operationalization of investor reaction.* I also tested an alternative operationalization of investor reaction: cumulative abnormal returns (CAR). I captured CAR using event study methodology. Event studies measure the importance of an event by examining security price changes within a short window surrounding the event (Bodie, Kane, & Marcus, 1989). The academic community has used event studies to examine market reaction to a broad range of firm announcements including executive succession (Lee & James, 2007), acquisitions (Uhlenbruck, Hitt, & Semadeni, 2006), and a variety of corporate social responsibility announcements (Arya & Zhang, 2009; Cheung, 2011). Stock price changes during the event window reflect new information such that examining those changes can be an indicator of the importance of that information (Bodie et al., 1989). According to McWilliams and Siegel (1997: 626), “Stock prices are supposed to reflect the true value of firms” and, therefore, changes in these prices measure the financial impact of some event. A firm’s abnormal returns are the difference between the firm’s actual return and the return predicted by the market model for normal market movement (Shen & Cannella, 2003).

While typical event windows are short to avoid the influence of confounding events (McWilliams & Siegel, 1997), scholars have used event windows of 30, 60, and 90 days, and sometimes more, in order to capture long-term effects of an announcement (e.g., Wade, Porac, Pollock, & Graffin, 2006). Similar to total market returns, my primary variable, CAR captures investors’ evaluation of the firm. In line with event-study procedures outlined by McWilliams and Siegel (1997), I estimated the market model

using a 255 day window ending 46 days prior to the event (Shen & Cannella, 2003; Zhang & Wiersema, 2009). The event window begins one day before the restatement announcement (-1) to account for possible leakage of information prior to announcement and ends 30 days after the announcement (+30 days) (Wade et al., 2006).

*Alternative operationalization of firm status.* Consistent with previous research, I alternatively used a measure of network centrality to capture *firm status*. Centrality refers to an actor's position in a network relative to others (Rowley, 1997). The firm's position within a network composed of relationships created by mutual agreement can be an important indicator of status (Connelly, Johnson, Tihanyi, & Ellstrand, 2011; Podolny, 1993). Occupying a central position signals social desirability and higher status (Burriss, 2005). As firms centrality diminishes so does its status (Phillips & Zuckerman, 2001). For these reasons, several management scholars rely on measures of network centrality to capture firm status and comparable constructs like prestige (Lin et al., 2009; Sullivan, Haunschild, & Page, 2007). Likewise, I measured firm status as the sum of the count of outside board memberships across the entire board (Chahine, Filatotchev, & Zahra, 2011).

Following the complete data collection effort, I further trimmed the sample to account for extreme outliers (Henkel, 2009; Miller & Chen, 2004). I conducted outlier analyses to identify cases that exceeded three standard deviations from the mean on all primary model variables. After removing extreme cases, my final sample includes 291 suitable cases for testing the complete set of hypotheses.

I also evaluated multicollinearity between variables. To do this, I assessed variance inflation factors (VIF). VIF measures how much the variance of each regression coefficient increases because of multicollinearity. No VIF was greater than 5.0 indicating that multicollinearity was not an issue. Further, all tolerance statistics were above .10, which scholars typically consider acceptable.

Per the recommendation of Kline (2005), I conducted a power analysis to confirm that the sample size is appropriate for testing the model I propose. A power analysis determines the probability that results of the hypotheses testing leads to the rejection of the null hypothesis when it is false. I used the computations MacCallum, Browne, and Sugawara (1996) suggest to calculate power. The final sample of 291 observations results in a power of 0.99, which is well above the generally accepted cutoff for sufficient power of 0.80 (Shook, Ketchen, Hult, & Kacmar, 2004). Design and Analysis

To test the relationships I proposed, I used structural equation modeling (SEM). Combining the logic of confirmatory factor analysis, multiple regression, and path analysis, SEM allows researchers to concurrently test of a series of dependence relationships while also analyzing multiple dependent variables (Jöreskog & Sörbom, 1999; Shook et al., 2004). The ability to test multiple hypothesized relationships within the framework of an overall model has contributed to the recent increase in scholars' use of SEM in strategic management. Using SEM, scholars can test the full scope of their models within one statistical approach without having to use multiple approaches (Henley, Shook, & Peterson, 2006; Shook et al., 2004). Thus, SEM is well suited to testing the moderation and mediation effects in the model I hypothesized (Cheung & Lau, 2008; Williams, Vandenberg, & Edwards, 2009).

I used IBM's SPSS 21.0 predictive analytics software (IBM, 2012) for all preliminary analyses including data screening and descriptive statistics. I used AMOS (Arbuckle, 2006) for the path analyses. In Table 3, I report the means, standard



**Table 3. Means, standard deviations, and bivariate correlations of primary variables**

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1. Media tenor (60)	-0.21	0.32								
2. Investor reaction	-0.04	3.31	0.00							
3. Blame deflection	0.72	0.91	-0.06	-0.05						
4. Blame acceptance	0.26	0.45	0.04	-0.11	0.20					
5. Executive succession	0.08	0.27	-0.08	-0.02	0.06	0.04				
6. Restructuring	0.12	0.32	-0.08	-0.08	0.12	0.12	0.05			
7. Firm status	0.19	0.40	-0.26	0.20	0.00	0.05	-0.08	-0.02		
8. Media attention	5.58	8.61	-0.14	0.04	0.01	0.00	0.12	0.03	0.34	
9. Firm size	6.52	2.31	-0.09	0.07	0.02	0.06	0.00	0.03	0.38	0.27
10. Firm performance	0.01	0.02	0.06	-0.01	0.03	-0.08	-0.01	-0.11	0.09	0.10
11. Board ownership	-3.38	1.61	0.12	0.00	0.11	0.03	0.04	0.06	-0.52	-0.31
12. Ownership concentration	-3.25	0.41	0.07	-0.09	0.00	-0.05	-0.02	0.05	-0.21	-0.15
13. Credibility	3.03	2.26	-0.02	-0.05	0.19	0.12	0.10	0.14	0.12	0.19
14. Prior media tenor	-0.17	0.32	0.28	-0.06	-0.11	0.08	-0.05	0.00	-0.13	-0.17
15. Munificence	1.09	0.06	0.09	-0.04	0.06	0.13	-0.04	-0.05	-0.04	0.04
16. Dynamism	1.06	0.05	-0.06	0.05	-0.05	-0.09	0.06	-0.01	-0.04	0.01
17. Complexity	0.97	0.09	0.04	-0.08	-0.04	-0.13	0.05	0.02	-0.02	-0.12
18. Industry wrongdoing	2.93	2.68	0.12	-0.04	0.07	-0.02	0.04	0.07	-0.05	0.01
19. Post SOX	0.75	0.43	0.04	0.03	-0.09	-0.04	-0.04	0.01	0.02	0.04

*Note:* Correlations greater than 0.12 are significant ( $p < 0.05$ ).

Variable	9	10	11	12	13	14	15	16	17	18
1. Media tenor (60)										
2. Investor reaction										
3. Blame deflection										
4. Blame acceptance										
5. Executive succession										
6. Restructuring										
7. Firm status										
8. Media attention										
9. Firm size										
10. Firm performance	0.09									
11. Board ownership	-0.32	-0.06								
12. Ownership concentration	-0.21	-0.09	0.29							
13. Credibility	0.10	0.03	-0.03	0.05						
14. Prior media tenor	-0.11	0.04	0.08	0.07	-0.02					
15. Munificence	0.08	0.01	-0.01	-0.11	0.05	0.12				
16. Dynamism	-0.05	-0.03	-0.12	-0.03	-0.08	-0.06	0.00			
17. Complexity	-0.10	-0.01	-0.01	0.05	0.09	-0.04	0.01	-0.17		
18. Industry wrongdoing	-0.12	0.03	-0.07	-0.01	0.15	-0.07	-0.09	-0.03	0.15	
19. Post SOX	-0.08	0.10	-0.05	0.05	0.07	-0.02	0.11	0.05	0.37	0.37

*Note:* Correlations greater than 0.12 are significant ( $p < 0.05$ ).

deviations, and bivariate correlations for the primary dependent, independent, and control variables I used in this study and described in the measures section.

### **Overall Model Fit**

Measures of model fit describe the difference between the sample covariance matrix and a predicted covariance matrix based on the parameter estimates obtained for a specific model (Williams et al., 2009). The chi-square test is the most common test of model fit (Kline, 2005; Shook et al., 2004). The chi-square test of the model I proposed using primary variables indicates adequate model fit ( $\chi^2 = 266.02$ ,  $p < .001$ ). However, the chi-square test risks sample size bias, so I also assessed model fit with a normed chi-square statistic (Joreskog, 1969). Models with adequate fit should have a normed chi-square value less than 3.0 (Bollen, 1989). This fit statistic also indicates adequate model fit (normed  $\chi^2 = 2.00$ ) of the model using primary model variables. While the chi-square and normed chi-square tests are still frequently reported, management scholars are transitioning to the regular use of more sophisticated model fit tests such as the comparative fit index (CFI) and the root square mean error approximation (RMSEA) (Williams et al., 2009). These indices are better at assessing model fit according to Brown (2006) and Kline (2005). CFI values of greater than 0.90 indicate adequate fit (Hu & Bentler, 1999) and RMSEA below 0.08 indicate adequate fit (Browne & Cudeck, 1993). The Standardized Root Mean Square Residuals (SRMR) is an absolute measure of fit where a value of zero indicates perfect fit, however, a value less than 0.08 indicates a good fit (Hu & Bentler, 1999). Results generally indicate adequate model fit for the model using primary model variables based on these statistics (CFI = 0.87; RMSEA = 0.06; SRMR = 0.06), however the CFI statistic is slightly below the cutoff of 0.90. Table

4 reports all of the fit statistics for the model using primary model variables, which I discuss here, as well as the fit statistics for the model using each of the alternative measures. Overall, the model using primary variables and the models using alternative operationalizations are consistent and largely fit the data.

### **Results of Hypotheses Testing**

After concluding adequate model fit, I tested the hypotheses. Table 5 shows the results of the path analyses for the model using primary model variables. In this table, I provide the results for the direct effects that correspond to the relationships I hypothesized in Chapter 3. Tables 6-10 show results of the path analyses for the hypothesized model using each of the alternative measures (run in separate models). The first sets of hypotheses predict the effects of firms' explanatory framing on media tenor and investor reaction following the revelation of financial misconduct. Hypothesis 1a proposes that blame deflection relates to media tenor such that as blame deflection increases media tenor increases. Hypothesis 1b predicts that blame deflection relates to investor reaction such that as blame deflection increases investor reaction increases. The results do not support either hypothesis regardless of the operationalization of media tenor or investor reaction ( $\beta = -0.02, p = 0.51$ ;  $\beta = -0.09, p = 0.69$ , respectively)<sup>5</sup>.

Hypothesis 2 advances that blame acceptance negatively relates to media tenor (Hypothesis 2a) and investor reaction (Hypothesis 2b). Path analysis results indicate that blame acceptance does not significantly predict media tenor ( $\beta = 0.07, p = 0.14$ ). The

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<sup>5</sup> Coefficients and *p*-values reported in the discussion of the results correspond with the analysis of the model using primary model variables unless explicitly stated otherwise.

**Table 4. Goodness-of-fit indices for hypothesized model using primary and alternative operationalization**

<b>Model</b>	$\chi^2$ p>0.05	Normed $\chi^2$ <3.00	CFI >0.90	RMSEA <0.08	SRMR <0.10
Primary model	266.02 ( <i>p</i> <.0001)	2.00	0.87	0.06	0.06
Models using alternative operationalization					
<i>Alt. operationalization of media tenor</i>					
JF coefficient of imbalance (55)	256.04 ( <i>p</i> <.0001)	1.93	0.87	0.06	0.06
JF coefficient of imbalance (75)	249.74 ( <i>p</i> <.0001)	1.88	0.88	0.06	0.06
Positive: Negative articles	246.70 ( <i>p</i> <.0001)	1.86	0.89	0.05	0.06
<i>Alt. operationalization of investor reaction</i>					
CAR (-1, 30)	264.05 ( <i>p</i> <.0001)	1.99	0.88	0.06	0.06
<i>Alt. operationalization of firm status</i>					
Network centrality	311.50 ( <i>p</i> <.0001)	2.34	0.90	0.07	0.07

*Note:* CFI = comparative fit index; RMSEA = root mean square error approximation; SRMR = standardized root mean square residual; AIC = Akaike Information Criterion

**Table 5. Results of path analyses for testing hypotheses**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor (60)	-0.015	0.022	0.510
1b.	Blame deflection→Investor reaction	-0.087	0.219	0.692
2a.	Blame acceptance→Media tenor (60)	0.065	0.044	0.142
2b.	Blame acceptance→Investor reaction	-0.855	0.434	0.049*
3a.	Succession→Media tenor (60)	0.021	0.068	0.755
3b.	Succession→Investor reaction	0.090	0.713	0.899
4a.	Restructuring→Media tenor (60)	-0.109	0.060	0.071†
4b.	Restructuring→Investor reaction	-0.322	0.607	0.596
5.	Status X Blame deflection→Media tenor (60)	-0.014	0.050	0.784
6.	Status X Blame acceptance→Media tenor (60)	-0.112	0.103	0.276
7.	Status X Succession →Media tenor (60)	-0.281	0.236	0.234
8.	Status X Restructuring→Media tenor (60)	0.019	0.143	0.894
9.	Media tenor (60)→Investor reaction	0.114	0.639	0.858
10.	Media Attention X Media tenor (60)→Investor reaction	-0.078	0.096	0.414

†  $p < .10$ \*  $p < .05$ \*\*  $p < .01$ \*\*\* $p < .001$ 

n = 291

**Table 6. Results of path analyses for testing hypotheses using an alternative operationalization of media tenor (55)**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor (55)	-0.016	0.027	0.551
1b.	Blame deflection→Investor reaction	-0.072	0.219	0.741
2a.	Blame acceptance→Media tenor (55)	0.031	0.053	0.558
2b.	Blame acceptance→Investor reaction	-0.843	0.433	0.051†
3a.	Succession→Media tenor (55)	-0.029	0.082	0.720
3b.	Succession→Investor reaction	0.137	0.713	0.848
4a.	Restructuring→Media tenor (55)	-0.073	0.072	0.315
4b.	Restructuring→Investor reaction	-0.296	0.603	0.624
5.	Status X Blame deflection→Media tenor (55)	-0.017	0.060	0.784
6.	Status X Blame acceptance→Media tenor (55)	-0.122	0.124	0.326
7.	Status X Succession →Media tenor (55)	-0.227	0.284	0.425
8.	Status X Restructuring→Media tenor (55)	0.009	0.173	0.958
9.	Media tenor (55)→Investor reaction	0.721	0.530	0.174
10.	Media Attention X Media tenor (55)→Investor reaction	-0.048	0.096	0.619

†  $p < .10$   
 \*  $p < .05$   
 \*\*  $p < .01$   
 \*\*\* $p < .001$   
 n = 291

**Table 7. Results of path analyses for testing hypotheses using an alternative operationalization of media tenor (75)**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor	-0.005	0.011	0.639
1b.	Blame deflection→Investor reaction	-0.082	0.220	0.710
2a.	Blame acceptance→Media tenor	0.029	0.022	0.199
2b.	Blame acceptance→Investor reaction	-0.856	0.434	0.049*
3a.	Succession→Media tenor	0.005	0.035	0.880
3b.	Succession→Investor reaction	0.095	0.714	0.894
4a.	Restructuring→Media tenor	-0.052	0.030	0.089†
4b.	Restructuring→Investor reaction	-0.318	0.605	0.599
5.	Status X Blame deflection→Media tenor	-0.027	0.025	0.297
6.	Status X Blame acceptance→Media tenor	-0.059	0.052	0.258
7.	Status X Succession →Media tenor	-0.005	0.120	0.965
8.	Status X Restructuring→Media tenor	0.103	0.073	0.154
9.	Media tenor→Investor reaction	0.627	1.267	0.621
10.	Media Attention X Media tenor→Investor reaction	-0.071	0.096	0.456

†  $p < .10$   
 \*  $p < .05$   
 \*\*  $p < .01$   
 \*\*\* $p < .001$   
 n = 291

**Table 8. Results of path analyses for testing hypotheses using an alternative operationalization of media tenor (proportion of positive to negative articles)**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor	-0.001	0.015	0.951
1b.	Blame deflection→Investor reaction	-0.083	0.219	0.705
2a.	Blame acceptance→Media tenor	0.027	0.029	0.350
2b.	Blame acceptance→Investor reaction	-0.863	0.433	0.046*
3a.	Succession→Media tenor	0.031	0.045	0.485
3b.	Succession→Investor reaction	0.079	0.713	0.912
4a.	Restructuring→Media tenor	-0.035	0.039	0.376
4b.	Restructuring→Investor reaction	-0.293	0.603	0.628
5.	Status X Blame deflection→Media tenor	-0.007	0.033	0.841
6.	Status X Blame acceptance→Media tenor	-0.041	0.067	0.542
7.	Status X Succession →Media tenor	-0.119	0.154	0.441
8.	Status X Restructuring→Media tenor	-0.034	0.094	0.717
9.	Media tenor→Investor reaction	1.240	0.986	0.209
10.	Media Attention X Media tenor→Investor reaction	-0.055	0.096	0.567

† *p* < .10  
 \* *p* < .05  
 \*\* *p* < .01  
 \*\*\**p* < .001  
 n = 291

**Table 9. Results of path analyses for testing hypotheses using an alternative operationalization of investor reaction (CAR; -1, 30)**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor	-0.015	0.022	0.510
1b.	Blame deflection→Investor reaction	0.120	1.250	0.924
2a.	Blame acceptance→Media tenor	0.065	0.044	0.142
2b.	Blame acceptance→Investor reaction	-3.414	2.474	0.168
3a.	Succession→Media tenor	0.021	0.068	0.755
3b.	Succession→Investor reaction	6.398	4.067	0.116
4a.	Restructuring→Media tenor	-0.109	0.060	0.071†
4b.	Restructuring→Investor reaction	-0.162	3.456	0.963
5.	Status X Blame deflection→Media tenor	-0.014	0.050	0.784
6.	Status X Blame acceptance→Media tenor	-0.112	0.103	0.276
7.	Status X Succession →Media tenor	-0.281	0.236	0.234
8.	Status X Restructuring→Media tenor	0.019	0.143	0.894
9.	Media tenor→Investor reaction	1.691	3.637	0.642
10.	Media Attention X Media tenor→Investor reaction	-1.136	0.546	0.037*

† *p* < .10  
 \* *p* < .05  
 \*\* *p* < .01  
 \*\*\**p* < .001  
 n = 291



**Table 10. Results of path analyses for testing hypotheses using an alternative operationalization of firm status (sum of board membership across all board members)**

No.	Hypothesis statement	Estimate	S.E.	<i>p</i> -value*
1a.	Blame deflection→Media tenor	-0.014	0.031	0.642
1b.	Blame deflection→Investor reaction	-0.087	0.220	0.692
2a.	Blame acceptance→Media tenor	0.070	0.056	0.217
2b.	Blame acceptance→Investor reaction	-0.855	0.434	0.049*
3a.	Succession→Media tenor	0.009	0.106	0.932
3b.	Succession→Investor reaction	0.090	0.714	0.899
4a.	Restructuring→Media tenor	-0.159	0.080	0.046*
4b.	Restructuring→Investor reaction	-0.322	0.606	0.596
5.	Status X Blame deflection→Media tenor	0.000	0.003	0.999
6.	Status X Blame acceptance→Media tenor	-0.005	0.005	0.372
7.	Status X Succession →Media tenor	-0.002	0.012	0.882
8.	Status X Restructuring→Media tenor	0.007	0.007	0.333
9.	Media tenor→Investor reaction	0.114	0.639	0.859
10.	Media Attention X Media tenor→Investor reaction	-0.078	0.096	0.414

† *p* < .10  
 \* *p* < .05  
 \*\* *p* < .01  
 \*\*\* *p* < .001  
 n = 291

models using alternative operationalizations of media tenor are consistent with this finding. Thus, the results do not support Hypothesis 2a. Results do show that blame acceptance is significantly, negatively related to investor reaction ( $\beta = -0.86, p < .05$ ).

Though the results of the path analysis of the model using the alternative operationalization of investor reaction, CAR, do not provide evidence of this relationship, the direction of the coefficient is consistent with the results of the analysis of the model using primary model variables and Hypothesis 2b ( $\beta = -3.41, p = 0.17$ ). Taken together, I conclude that the data support Hypothesis 2b.

Hypotheses 3 and 4 predict the influence of corrective actions on media tenor and investor reaction. Hypothesis 3 predicts that executive succession is positively related to media tenor (Hypothesis 3a) and investor reaction (Hypothesis 3b). The model using the

primary operationalization of media tenor and investor reaction does not provide evidence to support these predictions ( $\beta = 0.02, p = 0.76$ ;  $\beta = 0.09, p = 0.90$ , respectively), nor do the models using alternative operationalization of media tenor and investor reaction. Thus, Hypotheses 3a and 3b are unsupported.

Hypotheses 4a and 4b posit that restructuring is positively associated with media tenor and investor reaction, respectively. The results of the path analysis of the model using primary model variables show that the relationship between restructuring and media tenor is marginally significant and negative ( $\beta = -0.11, p < 0.10$ ). As firms announce restructuring media tenor decreases or becomes more negative. This relationship is also marginally significant in the model using an alternative operationalization of media tenor wherein the JF coefficient of imbalance relies on the trichotomization of media reports at the 75 percent cutoff ( $\beta = -0.05, p < 0.10$ ). Likewise, this relationship is also marginally significant in the model using alternative the operationalization of investor reaction ( $\beta = -0.11, p < 0.10$ ) and significant at  $\alpha = 0.05$  in the model using the alternative operationalization of firm status ( $\beta = -0.16, p < 0.05$ ). Though the results generally support a significant relationship between restructuring and media tenor, the relationship is in the opposite direction of the relationship I proposed in Hypothesis 4a. Therefore, the results do not support Hypothesis 4a. Additionally, neither the results of the path analysis of the model using primary model variables, nor results of the path analyses of the models using alternative measures yield results that support Hypothesis 4b ( $\beta = -0.32, p = 0.60$ ). Restructuring is not a significant predictor of investor reaction.

The next series of hypotheses predict the moderating effect of firm status on the efficacy of explanatory framing and corrective action. Specifically, Hypothesis 5, 6, and 7 postulate that firm status positively moderates the relationships between blame deflection and media tenor, blame acceptance and media tenor, and executive succession and media tenor, respectively. Conversely, Hypothesis 8 predicts that firm status negatively moderates the relationship between restructuring and media tenor. Results using primary model variables indicate that firm status does not moderate any of these relationships ( $\beta = -0.01, p = 0.78$ ;  $\beta = -0.11, p = 0.28$ ;  $\beta = -0.28, p = 0.23$ ;  $\beta = 0.02, p = 0.89$ , respectively). Results of the path analysis using the alternative operationalization of firm status are consistent with these results. Taken together, the results do not support Hypothesis 5 through Hypothesis 8.

Hypothesis 9 draws attention to the influence of media tenor on investor reaction. Specifically, this hypothesis predicts the partial mediating role of media tenor in the relationships between explanatory framing and investor reaction and corrective actions and investor reaction. Specifically, I hypothesized that media tenor partially mediates the relationships between blame deflection and investor reaction, blame acceptance and investor reaction, executive succession and investor reaction, and restructuring and investor reaction. The results of the SEM-based approach for mediation, recommended by James and Brett (1984) and James, Mulaik, and Brett (2006), indicate that media tenor does not mediate the relationships between explanatory framing and investor reaction or corrective actions and investor reaction because there is not a model in which the paths from any of the independent variables to media tenor and the path from media tenor to investor reaction are significant. To ensure the robustness of this straight-forward

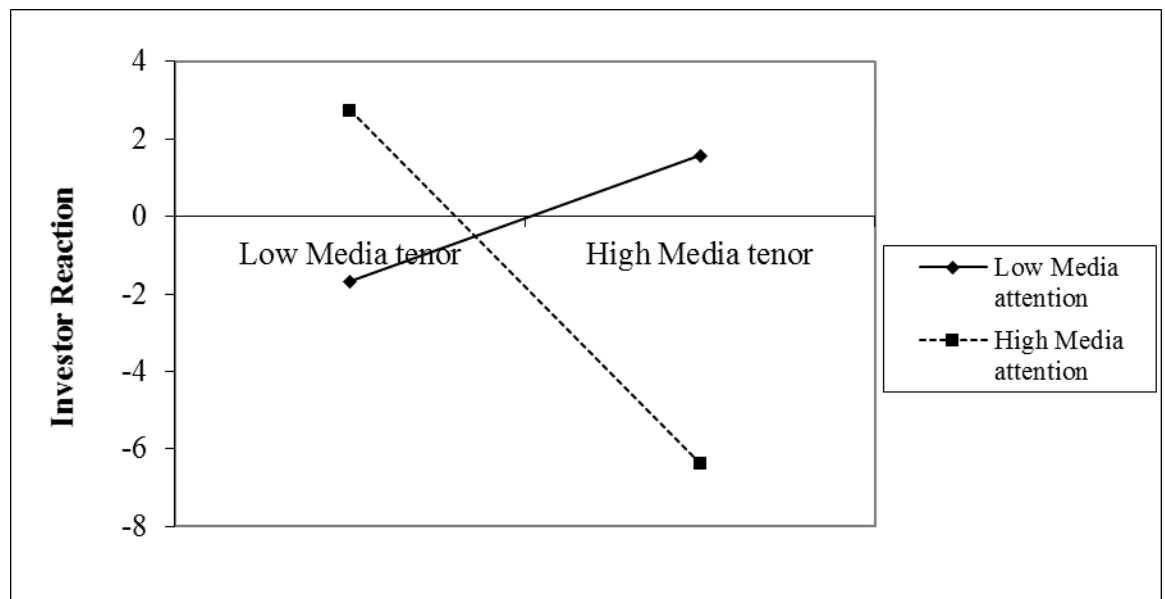
approach, I assessed the significance of media tenor as a mediator via a Sobel test (Sobel, 1982). Results of this test on the model using primary variables are consistent with the SEM-approach and also fail to support the prediction that media tenor mediates the relationships between each of the independent variables and investor reaction ( $z = -0.17$ ;  $p = 0.86$ ;  $z = 0.18$   $p = 0.88$ ;  $z = 0.16$ ,  $p = 0.88$ ;  $z = 0.18$ ,  $p = 0.86$ , respectively). Sobel tests using alternative model variables yield similar results.

Additionally, I conducted bootstrap analysis to evaluate the mediating effect of media tenor. Using a bootstrap analysis allows the testing of mediation across multiple samples. I employed a percentile bootstrap confidence interval (CI) analysis as well as a bias-corrected percentile analysis, because percentile bootstrap CIs can be asymmetrical (Preacher & Hayes, 2008). Neither bootstrap analyses indicate significant indirect effects of the independent variables on investor reaction. In sum, results clearly do not support Hypothesis 9; media tenor is not a significant mediator in the relationship between explanatory framing and investor reaction or between corrective actions and investor reaction.

Finally, Hypothesis 10 predicts the positive moderating effect of media attention on the relationship between media tenor and investor reaction. Path analysis results of the model utilizing primary model variables indicate that media attention does not moderate the relationship between media tenor and investor reaction ( $\beta = -0.08$ ,  $p = 0.41$ ). Models using alternative operationalization of media tenor and investor reaction are generally consistent with this finding. However, in the model using the primary operationalization of media tenor and the alternative operationalization of investor reaction (CAR), media tenor does significantly moderate the relationship between media tenor and investor

reaction ( $\beta = -1.14$ ,  $p < 0.05$ ). Per these results, as media attention increases the relationship between media tenor and investor reaction becomes less positive (more negative). Figure 2 illustrates the moderating effect of media attention. While the results provide partial support for a relationship between the interaction between media tenor and media attention and investor reaction, the moderating effect of media attention is opposite to the effect I predicted in Hypothesis 10. Thus, in conclusion, the results do not support Hypothesis 10.

**Figure 2. Moderating effect of media attention on the media tenor and investor reaction relationship**



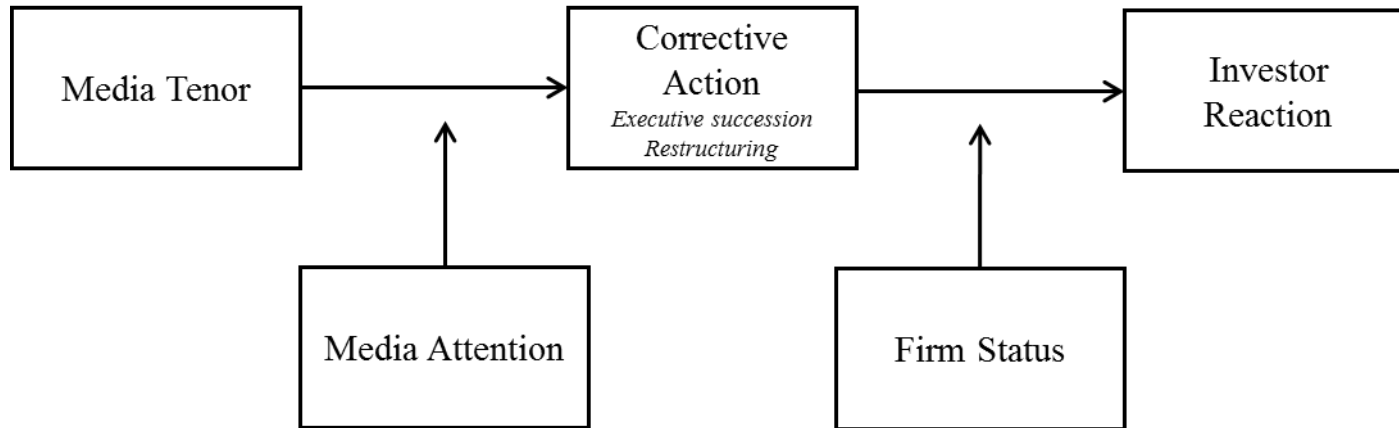
### Alternative Models

In testing the hypothesized model, I also considered the possibility of alternative models (Joreskog, 1993; Kline, 2005). Like the hypothesized model, alternative models are also based on a priori theory. According to Meuller and Hancock (2008: 504), “the articulation of competing, alternative models strengthens a study as it provides for a more

complete picture of the current thinking in a particular field.” Thus, I specifically tested two alternative models. Prior research indicates that media coverage can influence firm actions by increasing the saliency of certain issues and focusing decision makers’ attention on these issues (Bednar, 2012; Bednar et al., 2013). Therefore, I tested an alternative model, Alternative Model 1, where media coverage (i.e., media tenor and media attention) predicts corrective actions, which, in turn, predicts investor reaction. Because I captured media tenor across the 30 days following the announcement of the restatement and explanatory framing on the day of the announcement, it was unreasonable to suggest that media coverage could predict explanatory framing. Thus, I excluded explanatory framing from this model. I included firm status as a moderator of the relationship between corrective actions and investor reaction. Figure 3 illustrates Alternative Model 1. While this model is based on the same variables measured in the same sample as the default (hypothesized) model, the models are not hierarchically related; therefore, I ran this model separately. Results indicate somewhat poor fit and poorer fit than the default model I hypothesized ( $\chi^2 = 341.36, p < 0.001$ ; normed  $\chi^2 = 2.82$ ; CFI = 0.64; RMSEA = 0.08; SRMR = 0.08). Because of the model’s poor fit, it is unreasonable to draw conclusions based on the path coefficients of this model.

I also tested a second alternative model, Alternative Model 2, in which corrective actions moderate the relationship between explanatory framing and media tenor, which, ultimately, influences investor reaction. Firms can, and do, symbolically adopt policies, programs, and perspectives (e.g., explanatory framing) without actual, substantive implementation of those policies, programs, or perspectives (MacLean & Behnam, 2010). However, Pfarrer et al. (2008a) explain that firms must connote a consistent renewal

**Figure 3. Alternative Model 1**

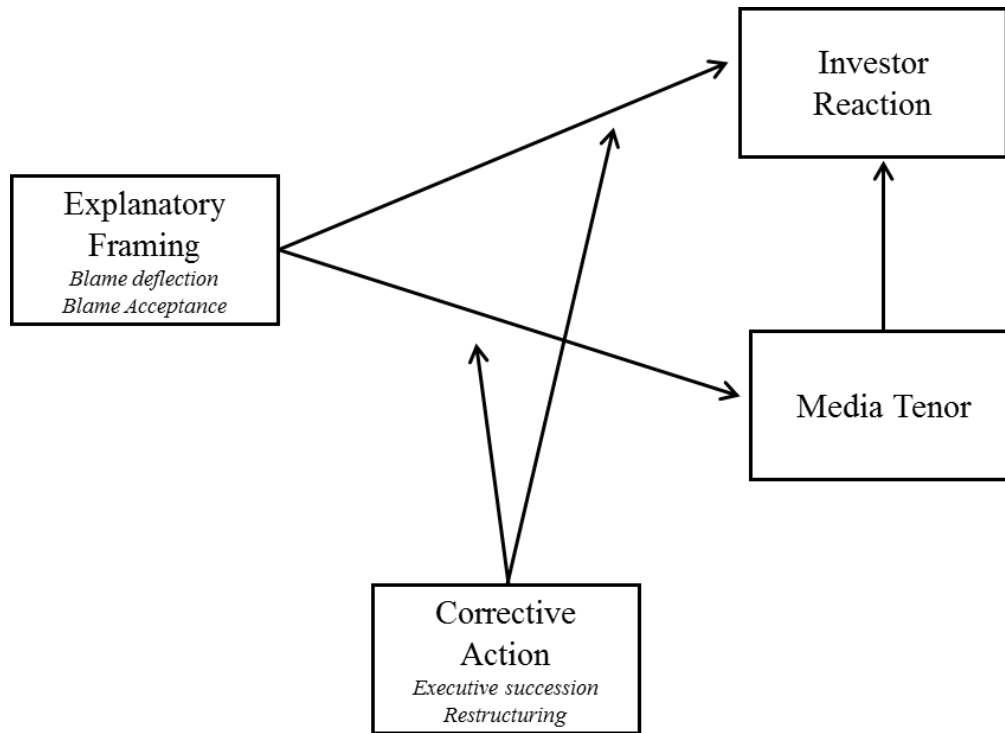


message following a negative event (i.e., what they say must match what they do) to fully rehabilitate their relationship with stakeholders. These authors explain that inconsistency can “distort the renewal message.” Further, when an organization relies solely on explanatory framing, instead of implementing observable actions that address the root of the issue, the firm may not fully appease its stakeholders (e.g., media or investors). Thus, Alternative Model 2 posits that the function of explanatory framing and corrective actions plays an important role in firm outcomes (i.e., media tenor and investor reaction) following the revelation of wrongdoing. Figure 4 illustrates Alternative Model 2.

Analyses of Alternative Model 2 show that model fit is adequate and similar, perhaps slightly better, to the fit of the model I hypothesized ( $\chi^2 = 223.16$ ,  $p < 0.001$ ; normed  $\chi^2 = 1.50$ ; CFI = 0.92; RMSEA = 0.04; SRMR = 0.06). I provide the results of the goodness-of-fit tests for both alternative models as well as the model I hypothesized in Table 11 for the purpose of comparison. Because neither of the alternative models are nested in the original model (i.e., both alternative models are nonhierarchical), the chi-square values can be compared, but the difference between them should not be interpreted as a test statistic (Kline, 2005). Therefore, I also present the Akaike Information Criterion (AIC) in Table 11. AIC reflects an information theory approach that combines estimation and model selection under a single conceptual framework. Scholars commonly use the AIC to select among competing nonhierarchical models estimated with the same data (Petkova et al., 2013; Rindova et al., 2005). Given two non-nested models, the model with the lower AIC value better fits the data (Kline, 2005). According to the AIC results, while both the



**Figure 4. Alternative Model 2**



**Table 11. Comparison of hypothesized and alternative models**

<b>Model</b>	<i>guidelines</i>	$\chi^2$ $p > 0.05$	<b>Normed <math>\chi^2</math></b> < 3.00	<b>CFI</b> > 0.90	<b>RMSEA</b> < 0.08	<b>SRMR</b> < 0.10	<b>AIC</b>
Default (hypothesized)		366.02 ( $p < .0001$ )	2.00	0.87	0.06	0.06	648.02
Alternative Model 1		341.36 ( $p < .0001$ )	2.82	0.64	0.08	0.08	519.36
Alternative Model 2		223.16 ( $p < .0001$ )	1.50	0.92	0.04	0.06	387.16

*Note:* CFI = comparative fit index; RMSEA = root mean square error approximation; SRMR = standardized root mean square residual; AIC = Akaike Information Criterion

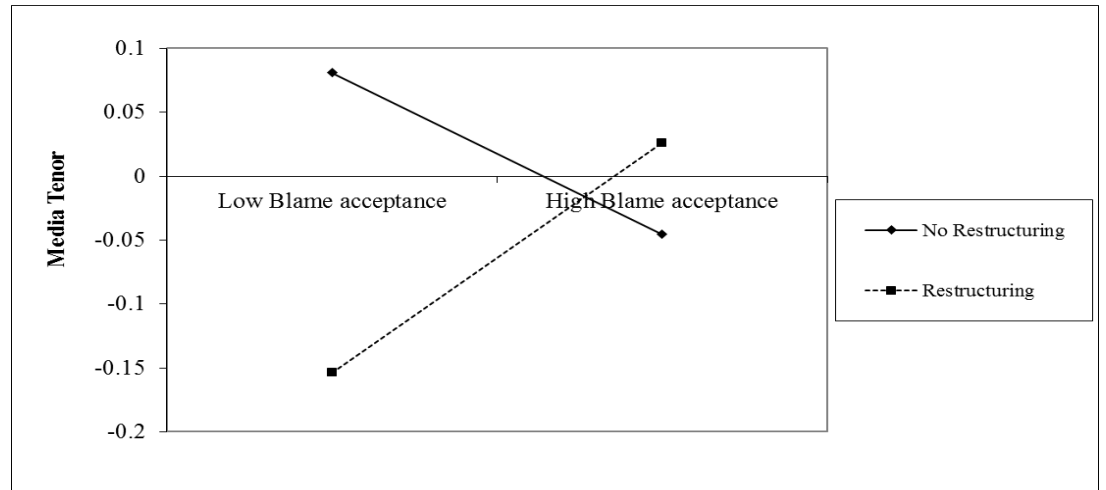
default (hypothesized) model and Alternative Model 2 adequately fit the data, Alternative Model 2 is the better model.

As Alternative Model 2 appears to be the better model, I conducted path analyses to investigate the relationships that make up Alternative Model 2. Results of the model using primary model variables indicate a significant, negative relationship between restructuring and media tenor as well as a significant, negative relationship between blame acceptance and investor reaction ( $\beta = -0.023, p < 0.01$ ;  $\beta = -0.92, p = 0.05$ , respectively). Results do not support any other relationship in Alternative Model 2. Results using alternative operationalizations are largely consistent with these findings. However, when testing the model using the alternative measure of media tenor wherein the JF coefficient of imbalance is calculated using the trichotomization of media articles at the 55 percent cutoff, restructuring is significantly, negatively related to media tenor ( $\beta = -0.25, p < 0.05$ ) and the interaction between blame acceptance and restructuring is significant ( $\beta = 0.36; p < 0.05$ ). Figure 5 shows this interaction. The results of the path analysis of the model using the alternative operationalization of media tenor where the variable reflects the proportion of positive to negative affective content across articles are similar such that they also reveal a significant interaction between blame acceptance and restructuring. No other paths in either of these models are significant at  $\alpha = 0.05$ .

In Chapter 4, I covered the complete methods I used to test the relationships I hypothesized in this dissertation. This chapter also included the empirical results of the hypotheses testing. Taken in sum, the results are somewhat limited, however they provide

several directions for future research. I discuss the implications of these results in the following chapter.

**Figure 5. Moderating effect of restructuring on the blame acceptance and media tenor relationship**



## CHAPTER 5: DISCUSSION AND CONCLUSIONS

In this dissertation, I proposed a model wherein what the firm says (i.e., explanatory framing), what the firm does (i.e., corrective action), and who the firm is (i.e., firm status) influence the firm's media coverage and, ultimately, investor reaction. This dissertation indicates that firms can manage, to some degree, the consequences of their misconduct. Results partially show significant relationships between what the firm says and investor reaction and between what the firm does and media coverage. These results somewhat highlight the unique influence of explanatory framing and corrective on the media and the investment community. Furthermore, results partially reveal that media coverage does influence investor reaction. The following paragraphs discuss the findings of each hypothesis in more detail. Table 11 provides a summary of these results.

In the first series of hypotheses, I posited the relationship between firms' explanatory framing on media tenor and investor reaction. Results indicate that blame deflection is not related to media tenor or investor reaction. These results are, somewhat, inconsistent with similar work conducted at the micro-level of analysis. Previous scholarship finds that denial is positively related to desirable outcomes following integrity violations (Kim et al., 2006; Kim et al., 2004). Additionally, other research finds that reticence (i.e., silence) is a suboptimal response compared to denial following integrity violations (Ferrin et al., 2007). In line with such research, I argued that blame deflection is a diagnostic cue that communicates that the integrity of the firm is intact.

**Table 12. Hypotheses results**

Hypothesis	Support?
Hypothesis 1a: Following organizational misconduct, blame deflection is positively associated with media tenor (i.e., media tenor will be less negative when the firm deflects blame).	No
Hypothesis 1b: Following organizational misconduct, blame deflection is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm deflects blame).	No
Hypothesis 2a: Following organizational misconduct, blame acceptance is negatively associated with media tenor (i.e., media tenor will be even more negative when the firm accepts blame).	No
Hypothesis 2b: Following organizational misconduct, blame acceptance is negatively associated with investor reaction (i.e., investor reaction will be even more negative when the firm accepts blame).	Yes
Hypothesis 3a: Following organizational misconduct, announcing the dismissal of a top executive is positively associated with media tenor (i.e., media tenor will be less negative when the firm dismisses a top executive).	No
Hypothesis 3b: Following organizational misconduct, announcing the dismissal of a top executive is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm dismisses a top executive).	No
Hypothesis 4a: Following organizational misconduct, announcing an internal restructuring is positively associated with media tenor (i.e., media tenor will be less negative when the firm announces restructuring).	No (results indicate a significant relationship, but in the opposite direction of the hypothesized relationship)
Hypothesis 4b: Following organizational misconduct, announcing an internal restructuring is positively associated with investor reaction (i.e., investor reaction will be less negative when the firm announces restructuring).	No
Hypothesis 5: Following organizational misconduct, firm status positively moderates (i.e., amplifies) the relationship between blame deflection and media tenor.	No
Hypothesis 6: Following organizational misconduct, firm status	No

positively moderates (i.e., amplifies) the relationship between blame acceptance and media tenor.

Hypothesis 7: Following organizational misconduct, firm status positively moderates (amplifies) the relationship between announcing the dismissal a top executive and media tenor. No

Hypothesis 8: Following organizational misconduct, firm status negatively moderates (i.e., attenuates) the relationship between announcing an internal restructuring and media tenor. No

Hypothesis 9: Following organizational misconduct, media tenor partially mediates the relationship between firms' explanatory framing and corrective actions and investor reaction; as media tenor is more positive (negative), investor reaction is more positive (negative). No

Hypothesis 10: Following organizational misconduct, media attention positively moderates (i.e., amplifies) the relationship between media tenor and investor reaction; the relationship is more positive when media attention is high. No (results indicate a significant relationship, but in the opposite direction of the hypothesized relationship)

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From this perspective, the more the firm deflects blame the more positive (i.e., less negative) its media tenor and investor reaction following the revelation of misconduct should be. However, I find that blame deflection does not affect either constituents' evaluation of the firm; high levels of blame deflection and low levels of blame deflection (i.e., reticence) do not have a significantly different effect. Concepts rooted in expectancy violation theory can explain these results. Reevaluation relies on new or different information that runs counter to current expectations. Thus, when firms communicate a non-change (e.g., "we didn't do anything wrong"), they do not provide new, unique information on which the media and investors base reevaluation. Instead, blame deflection simply confirms outsiders' prior beliefs.

Like blame deflection, blame acceptance does not relate to media tenor as I predicted. On the other hand, however, I find that blame acceptance is negatively related to investor reaction following the revelation of wrongdoing. Thus, blame acceptance appears to be diagnostic. When firms accept blame they provide useful information (i.e., the firm is “bad”) which the investment community uses to reevaluate the firm. Expectancy violation theory explains that when expectations are violated, the evaluator experiences high-intensity sentiments in the direction of the violation (Weber & Mayer, 2011). Therefore, it is not surprising that when a firm admits guilt, it engenders a negative response from investors. This conclusion is in line with previous research at the micro-level of analysis wherein apology is a suboptimal response to an integrity violation (Kim et al., 2006; Kim et al., 2004). It is worth mentioning, however, that the results here are contradictory to previous macro-level research regarding defensive versus accommodative signals wherein accommodative signals tend to serve shareholder interests after “scandals” (Marcus & Goodman, 1991). This inconsistency could be the result of differences in samples or in the nature of the “scandal.” Inconsistent results could also reflect difference in the measurement of response strategies. In particular, there may exist important differences between a broad categorization of response strategies which includes both verbal accounts and actions (i.e., accommodative versus defensive) and parceling out what the firm says from what the firm does.

Hypotheses 3a and 3b posited relationships between executive succession and media coverage and executive succession investor reaction. According to the results of this study, executive succession is not related to either media tenor or investor reaction. Simply, dismissing a top executive does not appear to influence firm consequences



following misconduct as I predicted. Previous scholars have found executive succession (i.e., CEO, CFO, and Chairman turnover) to be common following wrongdoing (Agrawal et al., 1999; Arthaud-Day et al., 2006; Desai et al., 2006) and explain these findings as the firm's attempt to avoid negative evaluations by pointing the finger to plausible scapegoats. However, perhaps similar to blame deflection, executive succession does not seem to provide useful information to outside evaluators. The scapegoating literature supports this by explaining that succession is a mere symbol and is not intended to introduce real change (Boeker, 1992). Alternatively, the lack of significant results here could reflect a flaw in the measurement of executive succession in this study. Outside constituents might view cues associated with various types of turnover (i.e., CEO versus CFO) differently. For example, a CEO departure could reflect the firm's attempt to merely deflect blame (i.e., scapegoat) (Rowe, Cannella Jr, Rankin, & Gorman, 2005). On the other hand, a CFO departure could reflect a sincere effort to "fix" the problem that led to the wrongdoing and, potentially, reduce the likelihood of recurrence. From this perspective, it is possible, that CFO turnover could be more accurately categorized as restructuring. Furthermore, key external observers could be more interested in the attributes of the successors of key executive roles rather than the departure of the incumbent (Gangloff, Connelly, & Shook, 2014; Gomulya & Boeker, 2014), which might result in nonresponse to the latter.

The fourth pair of hypotheses predicted that restructuring is positively associated with media tenor and investor reaction. Restructuring does not influence investor reaction, but as firms restructure, the media's evaluation of the firm becomes more negative. Though a significant relationship is present, it runs counter to Hypothesis 4a.

This finding is somewhat inconsistent with Zavyalova et al. (2012) that finds that technical actions following wrongdoing attenuate the negative effect of firms' wrongdoing on their media coverage. However, prior research on negativity bias can explain why the results reveal a negative relationship between restructuring and media tenor. Rather than casting a favorable light on the firm's commitment to righting its wrongs, restructuring, instead, likely underscores the flaws of the firm. Negativity bias (Ito et al., 1998; Rozin & Royzman, 2001) explains that key constituents probably weight admission of deficiency more heavily than any positive cues associated with a genuine effort to remedy shortcomings regardless of its potential positive impact on the future of the firm.

Notably, though blame acceptance via verbal accounts and admission of deficiency via corrective actions are, perhaps, similar in theory, they uniquely influence external constituents' evaluations. These unique influences could reflect the distinct interests of each of the external constituents in this study. For instance, investors' interests rest in the profitability of the firm. When the firm announces restructuring, it implies that it will operate effectively and profitably going forward and placates investors—their evaluation of the firm does not change. Conversely, blame acceptance simply indicates that the firm is flawed, which would likely change the profitability of the firm over time. Thus, investors respond negatively to blame acceptance. The media's response to firms' sensegiving efforts, on the other hand, might reflect its role as a social-control agent (Greve et al., 2010). From this perspective, the media may be more concerned with the violation of social expectations than the profitability of the firm. When an integrity violation is grave enough to require restructuring, the media's

evaluation becomes more negative. In contrast, the media may equate blame acceptance with a minor violation or, perhaps, be more easily pacified with a statement of remorse or regret regarding the violation of social order.

Next, I tested the moderating effect of who the firm is (i.e., firm status) on the efficacy of the firm's explanatory framing and corrective actions. Previous work suggests who the firm is (e.g., status, reputation, prominence) influences its media coverage. However, the results I present here reveal that firm status is not a significant moderator of the relationships between explanatory framing and media coverage or corrective action and media coverage. Simply, in this dissertation, firm status does not matter. These results do not support previously conceptualized ideas about how outsiders' prior beliefs about a firm influence if and how they interpret a new cue (Mishina et al., 2011). Correlation results, however, reveal a significant correlation between firm status and media tenor as well as firm status and investor reaction. Additionally, prior media tenor, a control variable in this study, is significantly related to investor reaction following misconduct in the path analyses. Thus, it is apparent that further assessment of these variables and related concepts (e.g., reputation, celebrity, prominence, etc.) could provide more clarity to the findings of this dissertation.

In Hypotheses 9 and 10, I examined of the role of the media in firm outcomes following corporate misconduct. Specifically, in Hypothesis 9, I tested the mediating effect of media tenor in the relationship between explanatory framing and investor reaction and corrective action and investor reaction. The results of this study indicate that media tenor, alone, does not play a key role in these relationships. One possible reason for these findings could be that investors' reactions to media tenor could be so short

lasting that they are difficult to capture using the methods in this study. Tetlock (2007) explains that negative returns following negative media sentiment are temporary and can reverse over the few days following this sort of media coverage. Likewise, the tenor of media coverage could be more influential on the day of the release of a particular media report than over several days. On the other hand, these results could simply explain that media tenor either does not capture investor attention or provide useful information, both of which might be necessary to prompt reevaluation.

Though media tenor alone does not predict investor reaction in the current model, the results of this dissertation indicate that the function of media tenor and media attention does influence investor reaction. However, the relationship between the function of media tenor and media attention and investor reaction contradicts my prediction. These results run counter to the literature on availability bias and availability cascades, which explains that the more recent and widely available evaluations by others increase the likelihood that similar evaluations will follow (Kuran & Sunstein, 1999; Pollock et al., 2008; Rao et al., 2001; Sunstein, 2005). Instead, as media attention increases, the relationship between media tenor and investor reaction becomes more negative. It is possible that increasing media attention increases the salience of the firm's misconduct rather than increase the plausibility of positive evaluations (Barber & Odean, 2008; Ocasio, 1997). When the firm's misconduct is more salient, investor reaction could reflect an increasingly negative response to the violation of expectations associated with high media tenor.

## **Contributions to the Literature**

Although many of my findings were not significant, my theorizing and the limited results of this study may still hold the potential to contribute to the literature. The first contribution of this study could be a more complete understanding of the effect of sensegiving following the exposure of misconduct. Previous research investigates the nature of verbal accounts and their role in firm outcomes following negative events (e.g., Elsbach, 1994). Other research examines firm actions following the exposure of wrongdoing and their influence on firm outcomes (e.g., Vergne, Forthcoming). Still others lump statements and actions together to form two broad categories of response strategies (i.e., *defensive* and *accommodative*) to study the effect of firms' sensegiving efforts (e.g., Coombs & Holladay, 2002; Marcus & Goodman, 1991; Siomkos & Shrivastava, 1993). In line with Maitlis and Lawrence (2007), this dissertation considers both verbal accounts and actions important, unique sensegiving cues. Extending the current literature, this study simultaneously examines the unique effects of what the firm says and what the firm does following misconduct. Furthermore, I consider multiple verbal accounts and multiple corrective actions, which answers a recent call for an examination of a variety of "actions that a firm might take to signal its seriousness at responding to instances of reputation damaging events," (Gomulya & Boeker, 2014: 36). The approach I took offers a more accurate understanding of the diagnosticity of each response strategy. In this way, this study could provide important groundwork for future research to examine the interaction between these response strategies. The construction and test of Alternative Model 2 begins this exploration.

The inclusion of multiple external evaluators in a single model is another potential contribution of this dissertation. Several studies investigate the response of a single observer group (e.g., investors *or* the media) to firms' sensegiving efforts (Marcus & Goodman, 1991; Vergne, Forthcoming). Consequently, scholars often make assumptions regarding the relationship between media coverage and other firm performance variables (Rhee & Haunschild, 2006; Zavyalova et al., 2012). In this dissertation, I specifically test the effects of explanatory framing and corrective actions on media coverage *and* investor reaction as well as the relationship between media coverage and investor reaction following wrongdoing. Therefore, this dissertation provides the opportunity to draw conclusions regarding differences between these constituents. Previous research makes a distinction between primary and secondary stakeholders citing several differences based on unique interests and varying levels of influential power over organizations (Barnett, Forthcoming; Godfrey et al., 2009; Waldman, Siegel, & Javidan, 2006). Generally, primary stakeholders have a reciprocal and direct exchange relationship with the focal firm (Van der Laan, Van Ees, & Van Witteloostuijn, 2008). Secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival," (Clarkson, 1995: 107). Evidence of distinct responses to sensemaking cues could reflect the inherently unique nature of each constituents' relationship with the firm. Thus, this study could be useful in future research about additional comparison and contrast between stakeholder groups. This dissertation also, perhaps, challenges assumptions regarding the relationship between media evaluation and investor reaction and calls for further assessment of this relationship.

Finally, this study holds the potential of providing some methodological contributions as well. Specifically, this dissertation offers new measurements of blame deflection and blame acceptance. Several studies in management and related disciplines have captured similar constructs such as accommodative versus defensive strategies (Marcus & Goodman, 1991), apology versus denial (Kim et al., 2006; Kim et al., 2004), and internal attribution versus external attribution (Segars & Kohut, 2001). However, scholars often do this by manually coding various texts or relying on experimental study design. Though generally accepted in the management literature, manual coding is subject to a wide range of reliability issues (Durlau et al., 2007; Short et al., 2010). To avoid such issues and dependence on experimental study design, I developed and validated two distinct word libraries to capture blame deflection and blame acceptance. I applied these word libraries via computer aided software analysis (i.e., DICTION) to firm-issued press releases; however, other scholarship could apply these word libraries a variety of texts.

### **Implications for Practice**

As Bill Lerach, an attorney for the shareholders of Enron said, “If everybody was pure of heart, we’d be all right. But you’re always going to have fraud in the markets.” To help firm outsiders navigate the complexity of these events and draw conclusions about the firm, firms can provide a variety of sensemaking cues. This dissertation evaluates the efficacy of these efforts and provides several implications for firms and their leaders that must manage social evaluations following financial misrepresentation, in particular, and negative events, in general.

This dissertation underscores the influence of new information. When a firm provides new information regarding its underlying character, outside constituents use that information to reevaluate the firm. On the other hand, confirmation of prior beliefs does not appear to prompt a response at all. Likewise, gestures or actions that appear insincere have a similar effect (non-effect) as those that do not provide new, useful information. Therefore, it is important that firms and their leaders consider what new information they are providing (i.e., does the new information cast a favorable light on the firm?). According to the results here, firms and their leaders are better off not saying or doing anything at all immediately following the exposure of misconduct because these efforts either do not effect outsiders' evaluations or result in external evaluations that are more negative.

The exploration of Alternative Model 2 could also have important implications for firms and their leaders. These results highlight the importance of the interaction between what the firm says and what the firm does. While it appears a suboptimal response strategy, if the firm chooses to accept blame through an apology or some other form of remorseful statement, the firm can take actions to soften the consequences of negative cues associated with this sort of account through consistent action. Put differently, consequences are less severe for the firms that “walk the talk” (i.e., do what they say).

Furthermore, this study indicates that one sensegiving strategy does not fit all. Firms have and attend to a variety of external constituents with varying interests and influences on the firm. While the relationship with some outside observers could be more influential on short-term outcomes, the relationship with others could have a greater



effect on long-term outcomes. Because unique observer groups appear to notice and interpret cues differently, managers might consider which outside constituents they wish to target before developing and allocating resources to response strategies following the exposure of wrongdoing.

### **Study Limitations and Future Research**

As with any research, this study is not without limitations. First, this study utilizes a sample of large firms based in the United States and, therefore, may not be generalizable to smaller firms or firms operating in countries outside of the United States. Strain resulting from high performance or growth aspirations of smaller firms could not only influence the nature of the firm's misconduct, but could also influence the urgency for response strategies and the type of response strategies these firms employ (Cohen, 1955; Merton, 1938). Therefore, future research might explore how firm size predicts firms' sensegiving efforts firms' and the efficacy of such efforts. Additionally, media trends as well as the perceptions of acceptable and unacceptable firm behavior could vary from country to country, which could provide more ample ground for future research.

Additionally, in this dissertation, I examine only one type of corporate misconduct—financial misrepresentation. While many strategic management scholars use this particular type of wrongdoing to draw conclusions regarding the antecedents and consequences of organizational misbehavior (Arthaud-Day et al., 2006; O'Connor et al., 2006), the potential inability to generalize the results I present here could limit the contribution of this study. Further, it is possible that some of the restatements I used to build the sample of firms for this study could be the result of unintentional errors and reflect incompetence instead of wrongdoing. To ensure the robustness of the results of

this dissertation, I recommend the replication of this study on samples of firms that have engaged in other types of misconduct. For example, other scholars investigate the causes and consequences of misconduct using samples based on SEC investigations (Kang, 2008) and product recalls (Davidson & Worrell, 1992). Alternatively, scholars might find that the firm's efforts to mitigate negative consequences following wrongdoing have differential effects depending on the type of misconduct. Results of such study might provide a platform on which to develop a typology of misconduct based on the victim type, magnitude, or nature of the misconduct.

The measurement of executive succession could be another limitation of this study. Here, I measure executive succession as a binary variable where a 1 indicates a CEO *or* CFO departure and zero otherwise. This measurement, perhaps, fails to distinguish important differences in the cues associated with each of these successions. To alleviate this limitation, future research should examine the unique effects of CEO departure *and* CFO departure announcements as well as, perhaps, Chairman departure announcements. Disentangling unique executive departures also provides the opportunity for future research about "cleaning house" versus scapegoating via a single departure. Furthermore, recent research explores how the attributes of successors influence the reactions of key external constituencies (Gomulya & Boeker, 2014). Inclusion of successor attributes could also improve of the current study.

Additionally, this study investigates investor reaction, but does not differentiate between investor types (e.g., dedicated versus transient). Future research might add this dimension to explore how and when investors with varying interests in the firm notice, interpret, and respond to sensemaking cues. Conclusions could provide additional

prescription to firms navigating investor relationships following the exposure of wrongdoing. Similarly, future research should consider different types of intermediaries beyond simply the media in similar models of organizational misconduct.

This study separately considered the influence of explanatory framing and corrective action, but, based on the preliminary exploration of Alternative Study 2, there are likely to be some important interactions between these sensegiving cues and between these cues and other available cues. For instance, several studies begin to explore the influence of other industry participants and their behavior in the wake of wrongdoing (Kang, 2008; Zavyalova et al., 2012). Building on this research, scholars could examine how the prevalence of wrongdoing in an industry changes the efficacy of firms' sensegiving efforts. Similarly, future research could examine a similar interaction using the prevalence of misconduct in the focal firm. Finally, other multi-level interactions could provide additional insight into the choice and efficacy of various sensegiving efforts. For instance, future research might consider attributes of the CEO (e.g., celebrity, reputation, status, credibility) in models of organizational misconduct.

## **Conclusion**

Although many of my hypotheses were not supported, there are some components of this dissertation that could have important implications to scholarship and practice. Generally, this study adds value to the literature on the consequences of organizational misconduct. Specifically, it indicates that firms can manage their consequences through sensegiving. This study classified sensegiving efforts into two categories: explanatory framing and corrective action. Results show that aspects of both efforts can have some influence on key constituents' evaluations when they provide new, useful information.

Notably, however, this influence is unique based on the observer. Further, results show some relationship between media coverage and investor reaction. However, media attention appears to increase the salience of firms' misconduct rather than any positive media evaluation.

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## APPENDIX A

**Table 13. Summary of Key Articles on Organizational Misconduct from Management Journals**

Article	Dependent Variable(s)	Analysis	Key Concepts
Marcel & Cowen <i>Strategic Management Journal</i> (2013)	Director exit	Logistic regression	<ul style="list-style-type: none"> <li>• Directors that depart following misconduct have different profiles (i.e., possess different relational and human capital)</li> <li>• Firms “clean house” of low-capital directors following misconduct perhaps to signal a commitment to remedy weak controls</li> <li>• This study does not provide evidence of directors “jumping ship” following the revelation of misconduct</li> </ul>
Ndofor, Wesley, & Priem <i>Journal of Management</i> (2013)	Misconduct	Two-stage model; Conditional logistic regression	<ul style="list-style-type: none"> <li>• Power and incentive compensation are not sufficient conditions for misconduct</li> <li>• Information asymmetry between the firm and its stakeholders provides the firm the opportunity to engage in wrongdoing</li> <li>• Industry- and firm-level complexity increase information asymmetry and, in turn, the opportunity for self-serving executive behavior</li> <li>• Strong monitoring mechanisms can attenuate the relationship between opportunity to engage in wrongdoing and wrongdoing</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Barnett <i>Journal of Management</i> (2012)	Conceptual	Review and propositions	<ul style="list-style-type: none"> <li>• To punish firms for misconduct, stakeholder must first notice the misconduct, assess the misconduct, and act on their evaluation of the misconduct</li> <li>• The media can raise the salience of a firm's misconduct such that other stakeholders notice it, but perhaps only does so if it is marketable</li> <li>• Stakeholders' previous understanding of the firm as well as their other biases influence their noticing, assessing, and acting</li> </ul>
MacLean & Behnam <i>Academy of Management Journal</i> (2010)	Misconduct	Case study	<ul style="list-style-type: none"> <li>• There are many unintended effects of decoupling compliance structures from firm operations</li> <li>• Decoupling compliance structures from actual operations signals conformity but insulates the firm from substantial effects of such structures</li> <li>• Decoupling compliance structures from actual operations damages organizational members' perceptions of legitimacy</li> <li>• Loosing legitimacy among less powerful organizational actors can be detrimental as they are the ones interacting with external constituents</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Kang <i>Academy of Management Journal</i> (2010)	Reputational penalties	Logistic regression	<ul style="list-style-type: none"> <li>• Director interlocks are not always an asset to a firm, but rather can produce negative consequences</li> <li>• Firms incur reputation penalties when associated firms that are accused of wrongdoing</li> <li>• Firms' observable monitoring shortcomings influence the likelihood of reputation spillover effects</li> </ul>
Godfrey, Merrill, & Hansen <i>Strategic Management Journal</i> (2009)	Investor reaction	OLS regression	<ul style="list-style-type: none"> <li>• CSR provides insurance-like protection when faced with a negative event</li> <li>• Evidence that the firm acts in other-regarding ways buffers firms from negative consequences associated with integrity-based negative events in which the firm's fundamental character is questioned</li> <li>• CSR activities that target primary stakeholders do not buffer the firm from consequences of negative events</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Pfarrer, Smith, Bartol, Khanin, & Zhang <i>Organization Science</i> (2008)	Voluntary disclosure of wrongdoing	Cox regression	<ul style="list-style-type: none"> <li>• Industry-level self-regulatory mechanisms and formal sanctions influence the likelihood a firm will voluntarily disclose previous wrongdoing</li> <li>• Formal and informal forces have opposite effects on whether or not the firm will come forward</li> <li>• Informal forces (e.g., behavior of performance or size leaders, peers, network ties) perhaps validate normative behavior</li> </ul>
Harris & Bromiley <i>Organization Science</i> (2007)	Misconduct	Conditional logistic regression	<ul style="list-style-type: none"> <li>• Firms seek unethical solutions to problematic search when they fail to meet social aspirations</li> <li>• Executive compensation structure is related to the likelihood of misconduct suggesting the way in which firms pay their executives may actually motivate them to engage in wrongdoing</li> <li>• Unethical action appears to be a readily available choice</li> </ul>
Arthaud-Day, Certo, Dalton, & Dalton <i>Academy of Management Journal</i> (2006)	CEO, CFO, director turnover	Cox regression; Logistic regression	<ul style="list-style-type: none"> <li>• Turnover is more likely in firms that are caught for wrongdoing</li> <li>• Both agents (e.g., CEOs, CFOs) and monitors (board members) are at risk for job loss following the revelation of misconduct</li> <li>• The severity of the misconduct is not a significant predictor of turnover</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Rhee & Huanschild <i>Organization Science</i> (2006)	Market penalty	Generalized estimating equations (GEE)	<ul style="list-style-type: none"> <li>• Firms with good reputations suffer more penalties following their wrongdoing than firms with poor reputations</li> <li>• Uniqueness buffers good reputation firms from penalty following misconduct</li> <li>• Media attention could play a role in market penalties following wrongdoing</li> </ul>
Schnatterly <i>Strategic Management Journal</i> (2003)	Illegal behavior	Logistic regression	<ul style="list-style-type: none"> <li>• Operational governance mechanisms are more effective preventers of illegal behavior than more traditional governance mechanisms</li> <li>• Clarity of policies and procedures are key f to preventing wrongdoing</li> <li>• More informal communication more often, codes of contact, and performance reviews prevent illegal behavior</li> </ul>
Baucus & Baucus <i>Academy of Management Journal</i> (1997)	Firm performance	Regression	<ul style="list-style-type: none"> <li>• Firms' performance suffers following wrongdoing</li> <li>• Different types of stakeholders may respond differently or at different rates to misconduct</li> <li>• Stakeholders appear to respond similarly all types degrees of wrongdoing—they “paint all convicted firms with the same brush”</li> <li>• Stakeholders respond to some types of wrongdoing, but not all</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Baucus <i>Journal of Management</i> (1994)	Conceptual	Review and propositions	<ul style="list-style-type: none"> <li>• Pressure, opportunity, and predisposition to intentional and unintentional illegality</li> <li>• Urgent demands or constraints push employees</li> <li>• Firm and industry characteristics create a “capacity for wrongdoing”; misconduct occurs when individuals take advantage of these opportunities</li> <li>• Predispositions of the firm (e.g., norms of secrecy) predispose individuals to commit acts of wrongdoing</li> </ul>
Baucus & Near <i>Academy of Management Journal</i> (1991)	Illegal behavior	Event history analysis	<ul style="list-style-type: none"> <li>• Firm- and industry-level antecedents predict misconduct</li> <li>• Loose or ambiguous conditions may create an opportunity for firms to misbehave</li> <li>• Industry and firm culture may predispose firm leaders to engage in misconduct</li> </ul>
Kesner, Victor, & Lamont <i>Academy of Management Journal</i> (1986)	BOD structure; Illegal behavior	ANOVA; Regression	<ul style="list-style-type: none"> <li>• Board structure and wrongdoing is consistent over time suggesting that one does not influence the other</li> <li>• CEO duality does not appear to influence wrongdoing</li> </ul>

## APPENDIX B

**Table 14. Summary of Key Articles on Media Tenor and Attention from Management Journals**

Article	Dependent Variable(s)	Analysis	Key Concepts
Bednar, Boivie, & Prince <i>Organization Science</i> (2013)	Strategic change	Generalized least squares regression; Two-step regression; Two-stage least squares regression (2SLS)	<ul style="list-style-type: none"> <li>• The media is an important stakeholder of the firm because it can influence firm actions</li> <li>• Negative media coverage can be a trigger for top managers to evaluate corporate strategy and change</li> <li>• The effect of media coverage is influence by the corporate governance mechanisms of the firm</li> </ul>
Kulchina <i>Strategic Management Journal</i> (2013)	Foreign firm entry	Two-stage least squares regression (2SLS)	<ul style="list-style-type: none"> <li>• Media coverage influences the choice of firm location</li> <li>• Private information provides more benefits for firms than public information via media coverage</li> <li>• Foreign and domestic firms have different sensitivity to media coverage</li> </ul>
Petkova, Rindova, & Gupta <i>Organization Science</i> (2013)	Media attention; VC funding	Structural equation modeling (SEM)	<ul style="list-style-type: none"> <li>• Firms' sensegiving activities are associated with media attention</li> <li>• Sensegiving activities have different information properties such as frequency, richness, and diversity have differential effects on media attention</li> <li>• Different sensegiving activities within these categories could have different effects on firms' media attention</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Bednar <i>Academy of Management Journal</i> (2012)	Media coverage; CEO dismissal; CEO compensation; BOD independence	Two-step regression: Probit and generalized estimating equations (GEE)	<ul style="list-style-type: none"> <li>• The media responds favorably to actions that conform with agency logic</li> <li>• The media can act as a conduit of institutional pressure such that it can influence firm actions</li> <li>• Firms can use highly visible actions to reduce potential pressure of the media</li> </ul>
Zavyalova, Pfarrer, Reger, & Shapiro <i>Academy of Management Journal</i> (2012)	Media tenor	Arellano-Bond and Generalized method of moments (GMM)	<ul style="list-style-type: none"> <li>• Firms can influence the infomediaries that cover them</li> <li>• Technical and ceremonial firm actions have differential effects on media coverage</li> <li>• Media coverage reflects negative spillover effects such that the focal firm can be affected by wrongdoing in the industry</li> </ul>
Desai <i>Academy of Management Journal</i> (2011)	Defensive institutional statements	Binomial regression	<ul style="list-style-type: none"> <li>• Actors try to influence the impressions of their overall field following disruptions</li> <li>• Media scrutiny of other actors' failures influences actors' propensity to engage in defensive behavior</li> </ul>
Kjaergaard, Morsing, & Ravasi <i>Journal of Management Studies</i> (2011)	Identity reconstruction	Longitudinal case analysis with grounded theory building	<ul style="list-style-type: none"> <li>• Positive media coverage influence the way organizations members' understand their organization (sensemaking effect)</li> <li>• Media influence can "outweigh" reality for organizational members</li> <li>• Organizational members align their understanding of the firm with the public portrayals of it</li> </ul>



Article	Dependent Variable(s)	Analysis	Key Concepts
Pollock, Rindova, & Maggitti <i>Academy of Management Journal</i> (2008)	Daily returns; daily turnover; media attention; media evaluation	Time event history analysis	<ul style="list-style-type: none"> <li>• Information versus availability cascades</li> <li>• Investor behavior influences the media</li> <li>• The media influences investor behavior</li> <li>• Widely available information works with recent information to be most influential</li> </ul>
Pollock & Rindova <i>Academy of Management Journal</i> (2003)	Underpricing; turnover	Two-step regression: Probit and ordinary least squares (OLS) regression; Two-stage least squares regression (2SLS)	<ul style="list-style-type: none"> <li>• The media influences investors' choices about IPO firms</li> <li>• The media can create "buzz" about a firm which changes the perceptions of the firm's value</li> <li>• Media attention impacts investor interest and attention while media tenor affects investor preferences</li> </ul>
Deepphouse <i>Journal of Management</i> (2000)	Relative firm performance	Two-step regression: Probit and hierarchical weighted least squares regression	<ul style="list-style-type: none"> <li>• Different than reputation based on various rankings, media reputation is the overall presentation of a firm in the media</li> <li>• Media reputation influences firm performance</li> <li>• Media reputation is valuable, rare, nonsubstitutable, and imperfectly imitable</li> </ul>
Rindova & Fonbrum <i>Strategic Management Journal</i> (1999)	Conceptual	Review and propositions	<ul style="list-style-type: none"> <li>• Shared understandings of the firm arise from the interpretations provided by intermediaries such as the media</li> <li>• Key constituents confirm paradigms by acting in accordance with intermediaries' interpretations</li> </ul>

Article	Dependent Variable(s)	Analysis	Key Concepts
Deephouse <i>Academy of Management Journal</i> (1996)	Regulatory endorsement; Public endorsement	Logistic regression; Tobit model	<ul style="list-style-type: none"> <li>• The media recognizes organizations that exhibit conforming behaviors as more legitimate than those that deviate from normal behavior</li> <li>• Media confers legitimacy differently than regulators</li> <li>• Firm size and age influence media coverage</li> </ul>
Fombrun & Shanley <i>Academy of Management Journal</i> (1990)	Reputation	Cross-sectional time series analysis; regression	<ul style="list-style-type: none"> <li>• Outsiders construct evaluations of the firm in consideration of a variety of signals including media reports</li> <li>• Media scrutiny influences firm reputation</li> </ul>

## APPENDIX C

**Table 15. Key Concepts**

Construct	Description	Pertinent References
Misconduct	Firm behaviors that place a firm's shareholders at risk and violate shareholders' expectations of societal norms and general standards of conduct	Zavyalova, Pfarrer, Reger, & Shapiro, 2012
Cue	Something evaluators consider to be potentially informative; a cue can be observations of actions, statement, characteristics, and outcomes	Highhouse, Brooks, & Gregarus, 2009; Mishina, Block, & Mannor, 2011
Information intermediary	Encompasses entities such as the media, analysts, consumer groups, regulatory agencies, and industry experts all of which can transmit information from or about the firm to other stakeholders	Deepphouse, 2000; Desai, 2011; Pollock & Rindova, 2003
The media	A particular information intermediary that is represented in newspaper articles, trade magazines, and blogs and is comprised of individual journalists	Bednar, 2012; Bednar, Bovie, & Prince, 2012; King, 1999; Vergne, forthcoming
Media tenor	The positivity/negativity of media reports; can be viewed as the media's evaluation	Pollock & Rindova, 2003; Zavyalova, Pfarrer, Reger, & Shapiro, 2012
Media attention	The amount of attention the media gives a firm or its actions (i.e., number of articles)	McCombs & Shaw, 1972; Pollock, Rindova, & Maggitti., 2008; Rhee & Haunschild, 2006

Construct	Description	Pertinent References
Sensemaking	The cognitive appraisal of an event, environment, or some other stimulus	Weick, 1995; Weick, Sutcliffe, & Obstfeld, 2005
Cue diagnosticity	The usefulness of a cue in coming to a conclusion; a cue's relevance, clarity, and positivity/negativity contribute to its diagnosticity	Fiske & Taylor, 1991; Petkova, Rindova, & Gupta, 2013; Skowronski & Carlston, 1987
Sensegiving	The process in which actors attempt to influence the manner in which others attach meaning to events through language or action; attempts to shape how others interpret and explain cues	Gioia & Chittipeddi, 1991; Maitlis, 2005; Maitlis & Lawrence, 2007
Framing	Condensing information by highlighting some information while hiding other information through verbal language	Fiss & Zajac, 2006; Benford, 1993
Corrective action	Actions that are intended to solve a problem that led to wrongdoing and prevent recurrence of the offense	Benoit & Czerwinski, 1997; Gillespie & Dietz, 2009
Categorization	Grouping or clustering objects or concepts that are perceived to be similar into categories, which contributes to the development of expectations for the members of the group	Dutton & Jackson, 1987; Fiske & Taylor, 1991; Porac & Thomas, 1990
Status	Prestige granted to firms based on differences in social rank, which generates privileges or discrimination for the firm	Gould, 2002; Washington & Zajac, 2005
Blame deflection	A statement that suggests the cause of the misconduct	Huang, 2006

Construct	Description	Pertinent References
	is not systemic to the firm	
Blame acceptance	A statement that suggests the cause of misconduct is a factor or factors within the firm; admission of guilt	Kelley, 1980; Kim, Ferrin, Cooper, & Dirks, 2004
Executive succession	The turnover of a top executive or executives	Agrawal & Chadha, 2005; Arthaud-Day et al., 2006; Desai et al., 2006
Restructuring	Changes to the firm's internal operations that could resolve a problem or shortcoming that led to misconduct	Coombs, 2007; Pfarrer et al., 2008

## APPENDIX D

**Table 16. Blame deflection word list**

Library	Word list
“Blame deflection”	admonish, appalled, appalling, blameless, cause, causal, challenge, clean, contest, contested, contradict, contradicted, contradiction, counter, defend, defended, defending, defense, defer, deflect, deflection, denial, denied, denounce, deny, denying, depend, depending, detract, detraction, disagree, disapprove, disavow, disbelieve, disclaim, disclaimed, disclaiming, discredit, discredited, discrediting, disprove, disproved, disproving, dispute, disputed, disputing, doubt, doubted, doubtedly, exemplary, faultless, guiltless, honest, impeccable, inculpable, innocent, irreproachable, lawful, legitimate, misled, object, objected, objecting, objection, oppose, opposed, opposing, protest, protested, protesting, rebuff, rebuffed, rebuffing, rebut, refusal, refuse, refused, refusing, refutation, refute, refuted, refuting, reject, rejected, rejecting, rejection, relate, related, relating, renounce, renouncement, renunciation, repudiate, unblamable, uncorrupt, uncorrupted, undefiled, unimpeachable, uninvolved, unmarred, unoffending, unsoiled, unsullied, untainted, untarnished, victim, victims, victimized, vilify

**Table 17. Blame acceptance word list**

Library	Word list
“Blame acceptance”	accede, acceded, accountable, acknowledge, acknowledged, acknowledging, acquiesce, acquiesced, acquiescing, admission, admit, admitted, admitting, agree, answerable, apologize, apologized, apologizing, apology, atone, atoned, atoning, blamable, blame, blameful, blameworthy, chargeable, compensate, comply, conceded, conceding, confess, confessed, confessing, confession, consent, contrite, contrition, convictable, corruption, culpable, disclose, disclosed, disclosing, disclosure, embarrassed, erred, erring, error, errors, fault, faulty, guilt, guilty, indefensible, inexcusable, liable, mistake, mistaken, mistakes, punish, punished, recognize, recognized, recognizing, reconcile, regret, regretful, regrettable, regrettably, regretted, regretting, regrettingly, remiss, remorse, remorseful, remorsefully, repent, repentance, repented, repenting, responsibility, responsible, restitution, shame, shameful, shamefully, sorry, transgression, understand, unjustifiable, unjustified, wrong