



Contentious Practices and Reputational Threat

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ABSTRACT

Contentious practices lack legitimacy and consequently present a threat to the reputations of individual and organizations. In this dissertation, I examine in the cases of flexible work policies, organizational misconduct, and corporate political activity. I use in-depth field research at a single firm, as well as longitudinal analysis of S&P1500 firms (2000-2017), to explore this phenomenon across units of analysis. In three essays, I examine individual and organizational engagement in contentious practices, with an emphasis on the role of reputational threat.

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NOTE

This dissertation consists of three chapters. Each chapter us a standalone article that is forthcoming, under review or in preparation for submission to academic journals. Interested readers should refer to published versions of the articles, as they contain more detail.

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INTRODUCTION

The twenty-first century has seen the diffusion of a variety of contentious practices. For example, organizations are increasingly using contingent labor, reducing office space through non-territorial workspace, and attempting to shape government regulation through lobbying. Much of this change has affected how employees coordinate work (Okhuysen and Bechky, 2009), the relationship between firms and employees (Davis et al., 2011; Bidwell et al., 2013), and firms' relationships to regulatory institutions (Barley 2010; Walker and Rea, 2014). Many of these practices have emerged in response to cost-reduction efforts, as well as efforts to push back against changes in legal and regulatory environment. In an era of rising social inequality, the adoption of such practices raises important questions about how they might affect inequalities inside organizations as well broader patterns of inequality in the local communities in which firms operate.

The contentiousness of practices arises when practices have not yet diffused widely across fields, or because they are actively contested by internal and external stakeholders on moral and normative grounds (Strang and Soule 1998; Briscoe and Safford 2008; King and Pearce 2010). This presents a problem since organizations strive for legitimacy in the eyes of external audiences, actively avoiding practices that could be perceived as objectionable (Meyer and Rowan 1977; Deephouse and Suchman 2008; Suddaby, Bitektine and Haack 2017). Managers tend to engage with contentious practices very cautiously because they lack legitimacy. Engaging with contentious practices can push managers into value-laden conflicts, attracting negative media attention, and threatening personal reputations and the reputations of the organizations they lead. By contrast, highly legitimate practices tend to be widely adopted, conferring a sense of taken-for-grantedness and normative approval that propels their diffusion across organizational fields.

Contentious practices pose considerable risk since individuals and organizations rely on their reputations to secure access to valued resources and opportunities. Valuations of worth rely on perceptions of external audiences, with actors exploiting the vulnerability of valuations to both objective and socially constructed factors (Lamont 2012; Zuckerman 2012). At the individual-level, employees expend considerable effort building their reputations by seeking out “high-visibility” work (Perlow, 1999), exaggerating work hours in conversations (Reid, 2015) and maximizing time seen physically present in the office (Correll et al., 2014). At the organization-level, strong reputations are largely a function of financial performance (Bermiss, Zajac and King 2014). However, organizational engagement in contentious practices can present reputational threat, particularly when social activists target the firm with boycotts and demand reforms (McDonnell and King 2013; Briscoe and Gupta 2016). Faced with this dilemma, managers must carefully consider whether the gains from contentious practices outweigh the risk of damaging their reputations.

This dissertation examines individual and organizational engagement with contentious practices, with a focus on reputational threats. Chapter one begins at the individual-level, examining how new non-territorial spaces affect employees’ use of reputationally-threatening flexible work policies. I use in-depth field research during an office redesign to explore how changes to physical space affect employee efforts to cultivate a reputation for being dependable and committed. The second two chapters focus on contentious practices at the macro-level. This involves using longitudinal archival data to exploring the conditions under which organizations engage in misconduct and political activity—contentious practices which threaten backlash from external audiences. I focus on the following key research questions in this dissertation:

- How does physical space affect employees' utilization of stigmatized flexible work policies? (Chapter 1)
- How does performance affect engagement in organizational misconduct? (Chapter 2)
- How do the experiences and backgrounds of CEO affect the political activities of the firms they lead? (Chapter 3)

To answer these research questions, each chapter of this dissertation presents three independent chapters. Each chapter contains its own introduction, theoretical framework, empirical methods, findings, and conclusions. All three chapters share a focus on contentious practices—flexible work policies, organizational misconduct, and corporate political activity—which can threaten the reputations of individuals and organizations. The findings provide theoretical contributions to the literatures on temporal flexibility, organizational misconduct, and managerial cognition, but also collectively advance our understanding of reputational threats affect engagement with contentious practices.

CHAPTER 1¹

FROM FACE TIME TO FLEX TIME: THE ROLE OF PHYSICAL SPACE IN WORKER TEMPORAL FLEXIBILITY

Abstract

Despite the great potential for flexible work policies to increase worker temporal flexibility—the extent to which workers control when and where their work tasks are completed—organizational scholars have found that employees rarely use them for fear of career penalties. This study sheds light on this flexibility paradox by drawing attention to the overlooked yet crucial role of physical space. Using 14 months of field research during an office redesign at a large professional sales organization, I find that a reconfiguration of physical space intended to reduce costs had the unintended consequence of disrupting taken-for-granted greeting practices, noticing practices, and evaluative beliefs. Changes to social practices led employees to feel less concern about trait inferences of dependability and commitment arising from their physical presence and to experience greater temporal flexibility. The findings contribute to a model in which the relationship between flexible work policies and temporal flexibility is moderated by the physical space. By identifying the physical space as a novel determinant of temporal flexibility, the study reveals the structural underpinnings of the flexibility paradox and more generally contributes to our understanding of how physical spaces structure social life in organizations.

Keywords: temporal flexibility, flexible work policies, physical space, social valuation, work–family

¹ See (Gonsalves forthcoming) for the article version of this chapter.

Flexible work policies have diffused widely across organizations, and yet employees often experience limited temporal flexibility (Osterman, 1995; Glass and Estes, 1997; Kelly et al., 2008; Correll et al., 2014). This flexibility paradox is somewhat surprising given that flexible work policies such as working from home or flexible work hours have long been championed by consultants and human resource professionals as a solution to ever-growing productivity demands in contemporary workplaces (Dobbin, 2009). Scholars are increasingly recognizing the importance of temporal flexibility for enabling employee boundary-management preferences (Ashforth, Kreiner, and Fugate, 2000; Ramarajan and Reid, 2013), improving employee health outcomes (Rothbard and Dumas, 2006; Kelly et al., 2008), and reducing gender inequalities in the labor market (Pedulla and Thébaud, 2015; Goldin and Katz, 2016). Although flexible work policies can provide temporal flexibility when they are actually used, reducing this gap between policy and practice appears to require considerable prodding and intervention (Kelly, Moen, and Tranby, 2011; Kelly et al., 2014; Moen et al., 2016).

Organizational scholars have identified employees' fears of career penalties as the key explanation for why flexible work policies routinely fail to produce worker temporal flexibility. Employees often forgo beneficial flexible work policies because they worry that utilizing these policies can raise doubts about their work devotion and stall their advancement in the organization (Williams, 2000; Blair-Loy and Wharton, 2002; Kellogg, 2011; Reid, 2015). This is because merely being seen as physically present in the office can lead observers to make spontaneous trait inferences of dependability and commitment (Elsbach, Cable, and Sherman, 2010). These concerns about the importance of "face time" appear to be valid, as there is evidence of wage penalties associated with using flexible work policies (Glass and Noonan, 2016).

This dominant explanation for the flexibility paradox—that employees avoid flexible work policies because they believe face time is important for cultivating perceptions of dependability and commitment—does not consider how structural workplace contexts might undergird this process. Extant studies link this stigmatization of flexible work policies to broader ideal worker expectations of total work devotion over family commitments (Williams, 2000), focusing on efforts to cultivate greater support and understanding of work–family issues (Perlow and Kelly, 2014). But this research does not consider how the relationship between flexible work policies and worker temporal flexibility might be affected by structural features of the work environment. I address this shortcoming by focusing on the overlooked yet crucial role of physical space in shaping temporal flexibility. Although recent scholarship has increasingly acknowledged that the configuration of physical space in organizations can structure patterns of social relations in unexpected ways (Elsbach, 2003; Elsbach and Pratt, 2007; Kellogg, 2009; Bernstein, 2012), we know little about how physical space could matter for temporal flexibility. This is an important oversight. As Lawrence and Dover (2015) have noted, “places have been significantly overlooked in organizational research despite their potentially profound consequences for organizational life.”

What is the role of physical space in shaping temporal flexibility? Drawing on unexpected findings from 14 months of field research during an office redesign, I explore the structural underpinnings of the flexibility paradox, revealing how physical space moderates the relationship between flexible work policies and temporal flexibility. This study retheorizes the stigmatization of flexible work policies as a social valuation process that unfolds within the material structure of the workplace, identifying how physical spaces structure social life in ways that are largely taken for granted yet consequential for employees’ experience of temporal flexibility.

The Flexibility Paradox: Flexible Work Policies, Career Penalties, and Limited Temporal Flexibility

Temporal Flexibility

By “temporal flexibility,” I mean the extent to which workers can control when and where their work tasks are completed. While “temporal flexibility” is the term often used by management scholars (Evans, Kunda, and Barley, 2004; Briscoe, 2007) and economists (Goldin and Katz, 2016), it is consistent with the concept of schedule control sometimes used in the work–family literature (Kelly, Moen, and Tranby, 2011). Following Evans, Kunda, and Barley (2004: 3), I focus on temporal flexibility provided by flexible work policies allowing discretion over start and end times, as well as the ability to work from home, because workers can strategically combine both types of flexible work policies (Moen et al., 2013). For example, working from home can shift commuting time into work time, allow breaks to be used for personal tasks, and enable focused work tasks requiring isolation.

Temporal flexibility is important for employees because it can reduce work–family conflict and improve individual health and wellbeing outcomes (see Kelly et al., 2008 for a comprehensive review). There is a large literature examining the social determinants of health and establishing a relationship between work–family conflict and stress-related illnesses (Allen and Armstrong, 2006; Rothbard and Dumas, 2006; Schieman, Milkie, and Glavin, 2009). Recent field experiments have provided even stronger evidence that temporal flexibility can meaningfully reduce work–family conflict for workers (Kelly, Moen, and Tranby, 2011; Kelly et al., 2014; Moen et al., 2016). Hence organizational scholars have called for more research examining strategies to redesign workplaces to achieve greater temporal flexibility (Correll et al., 2014; Perlow and Kelly, 2014).

Employees can also use temporal flexibility to achieve their desired level of work/non-work role blurring. Boundary theory (Ashforth, Kreiner, and Fugate, 2000; Nippert-Eng, 2008; Ramarajan and Reid, 2013) proposes that employee preferences for managing the work–home interface fall along a continuum from segmentation to integration. Some employees prefer to have a clear separation of roles, while others prefer to blur work and non-work roles. From this perspective, temporal flexibility can allow employees to enact their boundary-management preferences. Moreover, temporal flexibility appears to have a greater positive association with organizational commitment for employees who desire greater segmentation than for those who prefer integration (Rothbard, Phillips, and Dumas, 2005).

Temporal flexibility is also thought to improve the consistency of client service quality by limiting human error arising from overwork. For example, work hour reforms in hospitals were prompted by incidents of sleep deprivation among surgical residents leading to patient deaths (Kellogg, 2011). However, consistent service quality can be difficult to achieve under conditions of client-to-worker specificity—that is when clients expect to interact with a specific employee, when employees themselves vary in their work practices, and when employees have client-specific knowledge. Hence formal protocols that reduce reliance on one specific employee, and instead enable clients to work with multiple employees, can improve temporal flexibility for employees in client service contexts (Briscoe, 2007).

Although much of the literature has called attention to the benefits of temporal flexibility for workplace-level outcomes, economists have more recently argued that it may help remediate broader patterns of gender inequality in labor markets. This is because gender earnings gaps are highest in occupations that require unpredictable or extreme hours, and men disproportionately reap the benefits of this nonlinearity in pay with respect to work hours (Goldin and Katz, 2016). Some

have argued that the gender gap in pay might vanish entirely if firms were to increase worker temporal flexibility and stop rewarding individuals for working longer or unpredictable hours (Goldin, 2014). Yet as Padavic, Ely, and Reid (2020) observe, senior leaders often venerate long hours and resist challenges to 24/7 work culture by deflecting blame to clients' demands and industry norms. Despite the importance of temporal flexibility for improving workers' wellbeing and reducing workplace inequalities, there have been few signs of progress.

Flexible Work Policies and Limited Temporal Flexibility

Flexible hours policies and work-from-home policies have been widely adopted across organizations, with practitioners and scholars viewing them as a viable strategy to give employees greater temporal flexibility (Glass and Estes, 1997; Galinsky et al., 2010; Correll et al., 2014). Human resource managers and consultants played a particularly important role in this diffusion process, successfully advancing efficiency rationales to convince managers of their utility (Dobbin, 2009). Hence companies with high-commitment work systems are most likely to adopt flexible work policies (Osterman, 1995). Recent field experiments have overcome some of the methodological limitations of prior studies (Kelly et al., 2008), providing strong causal evidence that flexible work policies can provide employees with greater temporal flexibility, meaningfully improving their wellbeing (Kelly, Moen, and Tranby, 2011; Kelly et al., 2014; Moen et al., 2016).

And yet scholars have shown that employees rarely reap the benefits of this diffusion because they worry that using flexible work policies may result in career penalties. Employees' fears of career penalties are based on a belief that "face time"—the amount of time they are observed physically present in the office—is necessary to signal work devotion to colleagues and managers (Kossek and Van Dyne, 2008; Correll et al., 2014; Perlow and Kelly, 2014). Flexible work policies can result in career penalties because merely being seen working in the office can

lead observers to make trait inferences about employees' dependability and commitment (Elsbach, Cable, and Sherman, 2010). Even individuals who support work–family issues may contribute to this problem because trait inferences occur spontaneously, without intent or knowledge of this social valuation process by observers. Employees' beliefs about the importance of physical presence as a proxy for work devotion can lead them to expend considerable effort managing perceptions about their working hours. For example, Reid (2015) found that consultants often exaggerate their work hours in conversations with colleagues in order to bolster their reputations. Employees also seek out “high-visibility” work (Perlow, 1999: 67), believing that exposure to managers will enhance their upward mobility in the organization. This dynamic may be greater when performance evaluation systems use forced rankings because employees can feel even greater pressure to distinguish themselves from others by managing all available performance signals, including physical presence (Sharone, 2004). These concerns about face time are consistent with the broader literature on social valuation processes (Lamont, 2012; Zuckerman, 2012), which emphasizes the tendency of actors to engage in valuation opportunism, exploiting the fact that prevailing valuations are shaped by both objective and socially constructed factors.

Trait inferences about dependability and commitment arising from physical presence reflect widespread acceptance of expectations of the ideal worker. Flexible work policies tend to conflict with prevalent employer expectations of total work devotion over family commitments (Williams, 2000). These ubiquitous ideal worker expectations encourage overwork in contemporary organizations, with “greedy institutions” (Coser, 1974) demanding ever more productivity in the form of increased work hours for managerial and professional employees who are exempt from overtime pay (Jacobs and Gerson, 2004; Williams, Blair-Loy, and Berdahl, 2013). Thus higher status employees report higher levels of conflict between work and personal domains

(Schieman, Milkie, and Glavin, 2009). These ideal worker expectations can manifest overtly when supervisors impose work demands during non-work hours (Perlow, 1998) and directly sanction individuals who use flexible work policies (Kellogg, 2009, 2011), but they can also occur subtly when supervisors' lack of articulated support for flexibility is interpreted as disapproval (Kossek et al., 2011). Hourly wage returns to overwork have increased in recent decades (Cha and Weeden, 2014), suggesting that companies are increasingly rewarding employees for working extreme hours.

Employees' concerns about the importance of face time appear to be valid. Recent studies have shown that the use of flexible work policies does result in career penalties (Kalleberg and Reskin, 1995; Glass, 2004; Wharton, Chivers, and Blair-Loy, 2008; Glass and Noonan, 2016). Glass and Noonan (2016) found that employees who take overtime work home suffer slower earnings trajectories, with overtime work completed at home yielding earnings growth of about \$3.50 an hour less as compared to overtime work completed at the office. While previous studies have found mixed results (Weeden, 2005; Heywood, Siebert, and Wei, 2007), Glass and Noonan's (2016) longitudinal fixed-effects model overcomes some of the endogeneity biases in prior work. For example, high-performing employees are often more likely to use flexible policies (Kelly and Kalev, 2006), and flexible policies are associated with high-performance organizations (Osterman, 1995). Flexible work policies may be particularly damaging for employees who are not assigned to powerful supervisors (Briscoe and Kellogg, 2011) and when flexible policies are not widely used by high-status employees (Munsch, Ridgeway, and Williams, 2014).

Physical Space

Research examining the relationship between flexible work policies and temporal flexibility has largely focused on informal processes of social judgement, with comparatively less attention to the role of formal structures. However, Kelly and Kalev (2006) showed that formal registration procedures can discourage temporal flexibility by creating a system of negotiated perks whereby employees have the right to ask for, but not a right to use, flexible work policies. And formal procedures such as knowledge management tools, standardized routines, and organizational communications to clients have also been shown to increase temporal flexibility for employees by reducing clients' reliance on specific workers (Briscoe, 2007). Hence it may be important to pay more attention to how structural features of employees' work context could affect their experience of temporal flexibility.

Physical space is one important structural feature of workplaces that has been largely overlooked in research on temporal flexibility. Most qualitative studies in organizations tend to briefly describe the material environment, treating it like a passive backdrop where organization life unfolds rather than "an active ingredient" in producing social action (Finnegan, 2008; Lawrence and Dover, 2015). Some have suggested that physical spaces might heighten feelings of work-life distinction through the set of meanings conveyed by the material environment. For example, Nippert-Eng (2008: 189) suggested that the sterile aesthetic of the laboratory, with fluorescent lighting, linoleum floors, white boards, and gene-mapping diagrams, evokes a strong distinction between scientists' work and personal lives. This approach is consistent with a large body of psychological research showing how aesthetic features of spaces—such as illumination, temperature, and odor—can serve as stimuli triggering a range of physiological responses (Zhong

and House, 2012). But it is not clear how these perceptions of work–life distinction might affect behavioral outcomes, specifically the use of flexible work policies.

The broader literature on physical space in organizations (Elsbach and Pratt, 2007) provides two suggestive insights for why the material environment might matter for temporal flexibility. First, certain kinds of physical spaces can encourage risk-taking behaviors among employees. Several studies have shown that spaces providing isolation can allow employees to feel comfortable engaging in thick or emotive social interactions (Sundstrom, Burt, and Kamp, 1980; Becker et al., 1983; Carlopio and Gardner, 1992; Manning, 2014), collectively experimenting and learning new techniques (Bernstein, 2012), or covertly mobilizing for organizational change (Kellogg, 2009). Because flexible work policies represent a source of risk for employees' reputations, it is possible that physical spaces that enable risk-taking might encourage employees to use these policies. Yet while this research suggests that physical space could be relevant to risk-taking, it is not clear what specific features of physical space might be relevant for employees to feel more comfortable using flexible work policies.

Second, research on physical space has shown that employees can express valued identities through the material environment. When office designs allow a high level of personalization, employees can use personal artifacts to display their work and non-work identities to others (Elsbach and Pratt, 2007). They may decorate their workspace with photos of their families, awards conferred by their company, or objects that convey professional expertise (Wells, 2000; Bechky, 2003; Byron and Laurence, 2015). In non-territorial office spaces where employees cannot personalize their space, they are more likely to seek out other opportunities to convey their valued identities, using portable artifacts or discussing their personal lives with others (Elsbach, 2003). This is relevant because the stigmatization of flexible work policies involves a desire to display a

valued identity—that of the ideal worker who embraces total work devotion over family commitments. The design of the physical space may affect how employees signal aspects of this identity to others, and this could have consequences for temporal flexibility.

What is the role of physical space in shaping temporal flexibility? This is an important question because scholars have largely explained the weak relationship between flexible work policies and temporal flexibility by invoking employees' fears of career penalties; very little attention has been given to the role of physical space in this social valuation process. Given that physical spaces are generally thought to structure interpersonal interactions in organizations, this study aims to understand what role, if any, physical space might have in shaping temporal flexibility for workers.

Methods

This study involved 14 months of in-depth field research during an office redesign at the national sales division of a *Fortune* 500 company, which I refer to by the pseudonym “BigCorp.” More than 500 employees were located at the site, the majority of whom worked on either a customer team managing sales with a specific large customer account or on a brand team managing sales across product categories. BigCorp was an ideal research setting to examine the role of physical space in temporal flexibility for several reasons. First, the office redesign allowed me to exploit variation over time to examine changes in temporal flexibility by comparing the same employees' experience in the old office (assigned cubicles) with their experience in the new office (unassigned mix of workspaces). Second, the office redesign was initiated because of cost-reduction efforts unrelated to flexible policies, mitigating against endogeneity concerns about the office redesign signaling greater management support for temporal flexibility. Finally, flexible work policies

remained consistent over the study period, and no other notable changes (i.e., mergers, acquisitions, management changes, downsizing, policy changes) occurred in this time, facilitating reasonable comparisons between the old and new office spaces.

I embraced an explicit discovery epistemology (Locke, 2011), which has often been referred to as abduction (Tavory and Timmermans, 2014; Behfar and Okhuysen, 2018). Rather than entering the field site with a rigid set of pre-determined hypotheses, the researcher using this methodology searches for unexpected findings that existing theories cannot explain. The goal is to generate new theory by inductively discovering a surprising empirical puzzle of theoretical significance and then deductively developing and refining the emergent explanation. By combining induction and deduction, the abductive method aims to avoid common pitfalls of a rigid field research design—namely forcing the qualitative data to fit a pre-selected theory or collecting qualitative data that simply confirm what is already known. This approach is similar to grounded theory (Glaser and Strauss, 1967) but is much more explicit about the role of surprising findings based on existing literature and the need to rule out alternative explanations. Hence many scholars have described abduction as a more accurate description of how empirical scientists actually collect and analyze data in practice (Ketokivi and Mantere, 2010). This pragmatic strategy lends itself to mixed methods, embracing any data, whether qualitative or quantitative, that can help solve the empirical puzzle at hand (Small, 2011).

The abductive field research method is particularly appropriate for studying the role of physical space, because organizational research in this area is nascent (Elsbach and Pratt, 2007). A more open-ended and flexible research design should provide a stronger methodological fit here than a rigid research design that is better suited for testing mature theories (Edmondson and McManus, 2007). Consistent with my field research methodology, I began by examining

BigCorp's office redesign as the focal empirical phenomenon, armed with knowledge of multiple relevant literatures. I was surprised when I discovered employees describing both a decline in face time after the office redesign and greater comfort in utilizing flexible work policies. This discovery revealed an interesting empirical puzzle: why did the office redesign increase temporal flexibility for employees? To make sense of the unexpected findings, I triangulated between multiple data sources to develop a theory of the role of physical space in temporal flexibility.

Data Collection

The research process involved collecting multiple sources of data to assess the effect of the office redesign on temporal flexibility. These included (1) observation, (2) semi-structured interviews, and (3) company survey data. Triangulation between multiple data sources gave me confidence in my interpretations, ensuring strong fit between emergent theory and data.

Observation. Over the span of 14 months, I conducted approximately 1,400 hours of observation, split between the pre-change (Time 1) and post-change (Time 2) periods. This was enabled by BigCorp giving me an employee badge, a desk, a company e-mail address, and full access to talk to anyone in the organization. I entered BigCorp six months prior to the redesign and spent roughly three days a week at the office. I sampled for range (Weiss, 1994), learning as much as possible about the context by integrating myself into the organization and being as helpful as possible. Participant observation involved following six sales teams and the human resources (HR) team, as well as assisting with administrative tasks and data analysis. Non-participant observation involved passively examining how people used the office space and opportunistically joining meetings, training sessions, corporate events, and social activities. I also observed the

ongoing bi-weekly lunch series with employees and the company's most senior executives, where employees were encouraged to share their thoughts about how to improve work at BigCorp.

Consistent with the discovery epistemology approach, I did not initially expect that my field data would guide me toward the research topic of temporal flexibility. Hence I did not discuss my research purpose as related to flexible work policies and instead expressed a more general interest in studying the office redesign. My immersion in the research site prior to the change in physical space allowed me to gain a high level of familiarity with the organizational context and employee social practices, facilitating meaningful historical comparison of changes after the introduction of the new office space.

After the office redesign, I focused on producing comparisons of the post-redesign (Time 2) operations with the pre-redesign (Time 1) operations. This involved continued participant and non-participant observation in the organization for eight more months, as well as frequent informal discussions with employees about how the office redesign had affected their experiences at work. These historical comparisons led me to develop hypotheses about changes in social practices and temporal flexibility. Observation—particularly informal discussions with employees—led to the discovery of the core empirical puzzle and emergent theory of the role of physical space in temporal flexibility.

Semi-structured interviews. I conducted 50 semi-structured interviews during Time 2 to further develop and refine the theory that emerged from participant observation and informal discussions with employees across the organization. Informants were randomly sampled from a population list of employees located at the research site and reflected a diversity of gender, rank, and department. I interviewed 28 women and 22 men; 14 administrative employees, 11 junior managers, 16 middle managers, and 9 senior managers and executives; 21 sales employees, 16

marketing employees, 5 logistics employees, and 8 internal function employees. Interviews ranged from 30 to 90 minutes in length and took place at a location of the informant's choosing, typically in meeting rooms inside the office or at a nearby café. Interviews were audio recorded and transcribed with participants' consent.

Informants were given a general statement about the purpose of the research that indicated interest in hearing their "opinions and insights on the new office space." During each interview, I began with open-ended questions about their feelings about the office redesign, and I later asked specifically about their use of flexible work policies. I introduced myself to informants as an academic researcher and promised confidentiality of responses, and I was transparent about my access and observations in the company being facilitated by BigCorp executives. I initially thought this affiliation might yield some hesitation in discussing their utilization of flexible work policies because it could be a sensitive topic. However, informants appeared receptive to this ambiguous insider–outsider status (Lofland and Lofland, 1995) and seemed quite willing to talk candidly about their experiences. I present the qualitative data using labels indicating gender, function (sales, marketing, logistics, or internal), and interview number.

Interviews are well suited for an analysis of employees' experience of temporal flexibility. This is because the stigmatized nature of flexible work policies leads employees to minimize observable behaviors and discussion. Although my observations provided valuable insights about the organizational context and employees' social practices more broadly, the interview data enabled privileged access to individuals' subjective and affective understandings, which are otherwise difficult to study (Weiss, 1994). This allowed insight into the motivations underlying individual decisions to access flexible work policies, their perceptions about the risks involved, and their comparative experience of temporal flexibility in the two office spaces.

Company survey data. I include results from a company survey in Appendix A and refer to them in the main findings to corroborate my qualitative insights. BigCorp collected the survey six months after the office redesign (Time 2) with simple random sampling yielding a response rate of about 69 percent. Although BigCorp had also conducted a Time 1 survey, respondents did not have unique identifiers, so the same people could not be linked across survey waves. I therefore relied only on data from the Time 2 survey, which asked respondents to retrospectively rate their experiences in the old and new office spaces, facilitating analysis of within-person variation and controlling for time-invariant unobserved characteristics of individuals. The company designed the survey primarily to identify potential issues with technology and maintenance, but some survey items were constructed based on their own employee focus groups and were relevant to my research question. I obtained the survey data after I had already analyzed the qualitative data and developed the theory presented in this paper. Therefore the survey data did not contribute to the identification of the empirical puzzle or to the explanatory theory-building process. Instead, they provided a unique opportunity to triangulate with the qualitative data, giving me greater confidence in my interpretations and helping me generalize beyond those employees sampled in my observation and interviews.

Analytic Approach

The analytical strategy was to generate a processual theory by exploiting variation over time (Tavory and Timmermans, 2014). This involved examining the effect of the office redesign using Time 1 (old office space) versus Time 2 (new office space) comparisons. Rather than comparing the experiences of employees assigned to different physical spaces (a cross-sectional/between-subjects comparison), the research design compared the experience of the same employee in the

old office space and the new office space (a longitudinal/within-subject comparison). This approach improves the accuracy of interpretations by ruling out alternative explanations arising from differences in stable individual characteristics or work contexts. Hence I compared my own observations before and after the office redesign, and my interview informants and company survey respondents compared their own experiences before and after the office redesign.

Time 1 versus Time 2 comparisons occurred prospectively in the observational data and retrospectively in semi-structured interviews and company survey data. Although interview informants seemed perfectly willing and able to recall the information they provided, several features of the study design reduce the risk of bias arising from recall accuracy issues in retrospective accounts. These correspond to the key event factors that are known to affect respondents' recall accuracy: the passage of time, temporal landmarks, event distinctiveness, and topic importance (Tourangeau, Rips, and Rasinski, 2000). First, respondents were asked to compare their experiences in the old and new office spaces, which were separated by a relatively short time interval of about six months. Second, the office redesign served as a distinct temporal landmark, eliminating uncertainty about the reference period by clearly demarcating Time 1 (old office) from Time 2 (new office). Third, the event under question—the office redesign—occurred only once, eliminating any confusion about which office space was being asked about. Finally, the topics of the research were important to employees given the considerable impact of the office space and flexible work policies on employees' daily routines and overall quality of life. These features should facilitate recall accuracy and reduce measurement error.

The qualitative data were stored, organized, and analyzed using NVivo qualitative research software. The analysis involved constant comparisons between Time 1 and Time 2. In the first round of analysis, I conducted open coding (Strauss and Corbin, 1998), focusing on identifying

empirical themes relating to how informants described their experience of temporal flexibility in the old and new office spaces. These codes were then grouped into second-order codes with empirical themes being distilled into conceptual categories that corresponded to either Time 1 (old office) or Time 2 (new office). The final round of coding produced the aggregate dimensions “changes to greeting practices,” “changes to noticing practices,” and “changes to evaluative beliefs.” These aggregate dimensions were inductively identified by 22, 56, and 58 percent of informants, respectively. The emergent theory from the qualitative data was then supplemented by an analysis of relevant items from the company survey data.

Findings

I found that the physical space served as a powerful structural determinant of temporal flexibility. Although employees had access to the same flexibility work policies—a work-from-home policy and a flexible hours policy—in the old office and in the new office, their level of temporal flexibility changed considerably after the office redesign. Changes in physical space disrupted and transformed taken-for-granted social practices, reducing anxieties about career penalties and strengthening the relationship between flexible work policies and temporal flexibility. After the office redesign, employees experienced greater temporal flexibility, which manifested in greater control over work timing and location. The findings indicate that the relationship between flexible work policies and temporal flexibility is moderated by the physical space.

Flexible Work Policies

BigCorp offered highly progressive flexible work policies that were available to all employees working at the site and did not change during the study period. The flexible work policies had been

in place for several years prior to the office redesign and allowed all employees to use flexible hours and to work from home at their discretion. While many companies require employees to request access to flexible work policies from their managers (Kelly and Kalev, 2006), at BigCorp, these flexible policies applied to all employees by default and allowed considerable discretion in work timing and location.

BigCorp's HR policy guide outlined a flexible hours policy and a work-from-home policy. The flexible hours policy allowed employees to choose their own start and end times each day. Employees could begin working as early as 7 a.m. or as late as 9:30 a.m. and could accordingly stop working between 3 p.m. and 5:30 p.m. depending on their start time. The company's work-from-home policy allowed employees to work from home at their discretion, with no requirements to formally report time worked outside the office. These policies were made available to employees with the expectation set in the HR policy guide that employees use good judgment to make sure that they did not "have an adverse effect on achieving business results or create undue burden for the team or other employees." Although employees were encouraged to use this discretion responsibly, the policy reaffirmed the company's intent to "facilitate employees having the flexibility to balance work and personal needs while allowing [BigCorp] to manage resources, attain objectives and meet business and customer needs."

Although BigCorp offered highly progressive policies, their utilization by employees was mixed. Despite having the option to work from home or adjust their working hours, some felt anxious about using these policies, fearing that "if you are not at your desk, people will think you've checked out" (FM39). Flexible work policies were not completely decoupled from practice, as is common in many organizations. While they certainly did not exist solely "on the books" or

as a form of symbolic compliance at BigCorp, many employees accessed them infrequently and cautiously prior to the office redesign. As one informant explained:

[E]ven though you come to [BigCorp] as a new hire and they say, “it’s not about face time, it’s about results,” and all these things, you still will feel obligated to have that face time in the office. Regardless of if your manager says it doesn’t matter, you still have the feeling that it matters. (MS37)

Employees’ fears about negative career consequences were somewhat surprising given the company’s strong espoused support for flexibility. Prior to the office redesign, I attended a mandatory onboarding training for new employees in which one of the most senior BigCorp executives gave a presentation about work norms, outlining the company’s flexible work policies and encouraging new employees to take advantage of them to achieve a healthy work–life balance. BigCorp executives emphasized that because roles were very demanding, the flexible policies were intended to provide employees with the autonomy to balance heavy work responsibilities with personal and family needs. All new employees were informed of these policies as part of the routine employee onboarding training. I also noticed that it was standard practice for employees to include a call-in number when scheduling meetings with more than two people, just in case someone was working remotely. This feature was seamlessly integrated into the calendar management software that all employees used to schedule meetings. HR managers were also highly supportive of flexible work policies and spoke about them during meetings as a valuable way of preventing employee burnout and stress-related medical leaves.

Changes to Physical Space: From Assigned Cubicles to an Unassigned Mix of Workspaces

The old office space featured standard cubicles that were assigned to individual employees. There were two slight variations of this configuration across floors. Most floors had a traditional assigned

cubicle design where each employee had an individual cubicle with high partitions and was co-located with members of their work team. A few floors had a similar design except with slightly lower partitions between cubicles and with clusters of cubicles assigned to each work team rather than to individual employees. In most of these teams, however, employees would typically choose the same cubicle each day, effectively resulting in an informally assigned cubicle arrangement that was practically identical to the first layout but with slightly lower partitions. Meeting rooms designated for different work teams were also available on each floor.

The new office design, referred to as the “BigCorp Campus,” was a non-territorial (Elsbach, 2003) or activity-based design. This involved changing two dimensions of physical space—workspace assignment and workspace heterogeneity—by replacing assigned cubicles with an unassigned mix of workspaces with no booking requirements. The BigCorp Campus significantly reduced the number of floors occupied in the leased BigCorp building. Varied workspaces were available on each floor and intended for particular task needs. *Library space* consisted of large clusters of study carrels, usually located on far ends of the office, away from louder high-traffic areas. *Open areas* had minimal or no partitions and featured modern furniture, including a mix of long high tables, low comfortable chairs, and small tables. Similar to a lounge, this type of area was intended for casual conversations or work requiring relatively low concentration. *Break-out rooms* were small closed-door rooms located throughout the office, intended for one- to five-person meetings or for private phone calls. Finally, *conference rooms* were large closed-door rooms varying in size (for 6 to 20 people), which required advanced booking. Artist renderings of the old and new office spaces are provided in Appendix B for a visual comparison.

All BigCorp floors were sequentially ordered and connected by elevators and staircases, and employees could access any workspaces on any floors throughout the day as needed, with no booking requirements except for the large conference rooms. Prior to the office redesign, the company provided optional document digitization services for the contents of filing cabinets, as well as optional training sessions on digital notetaking. Employees continued to use the same portable laptop computers that they had in the old office space. The new office also provided lockers scattered throughout all floors of the building with reprogrammable passcodes, allowing employees to use any locker to store personal items such as coats, shoes, or bags. This allowed them to move from space to space as needed throughout the day without having to carry anything other than their laptop computer.

The office redesign was not intended to improve temporal flexibility among employees. Rather, it emerged when executives decided to engage in creative cost reduction by minimizing the company's real estate needs. Company executives were advised by their commercial real estate services partner that valuable space reduction opportunities existed that could reduce the high costs of renting many floors of office space in a major city center. This was because employees' assigned cubicles were never fully utilized due to normal business activities taking place away from the cubicle (e.g., meetings, phone calls, customer visits, breaks, vacation time). Activity-based or non-territorial office designs have become increasingly popular in recent years, with companies adopting them partly because they reduce the total size of the office space by accounting for normal employee time away from their desks (Needleman, 2009; Bennett, 2014; Park, 2014; Rosenberg and Campbell, 2014). Senior leaders were transparent in informing employees that the office redesign was motivated by cost-reduction efforts, rather than trying to frame it as an effort to improve the current office space. The company president unveiled plans for the upcoming BigCorp

Campus during the annual end-of-year meeting for all employees. He explained that there was “substantial underutilization of the office space” and that the redesign would “present a smart opportunity to reduce costs while also maintaining a comfortable and modern work environment.”

After the announcement, many employees raised concerns about how the new office space would function, raising a variety of potential problems related to crowding, noise, storage, and logistics. Although the company solicited feedback and aimed to proactively address these issues through town halls and planning committees, employees’ expectations were clearly mixed prior to the launch of the BigCorp Campus. Given that the office redesign was presented as a cost-savings effort and not a work–life balance initiative, it does not appear that employees’ perceptions of management’s intent were related to changes in temporal flexibility.

Changing Social Practices and Increased Temporal Flexibility after the Office Redesign

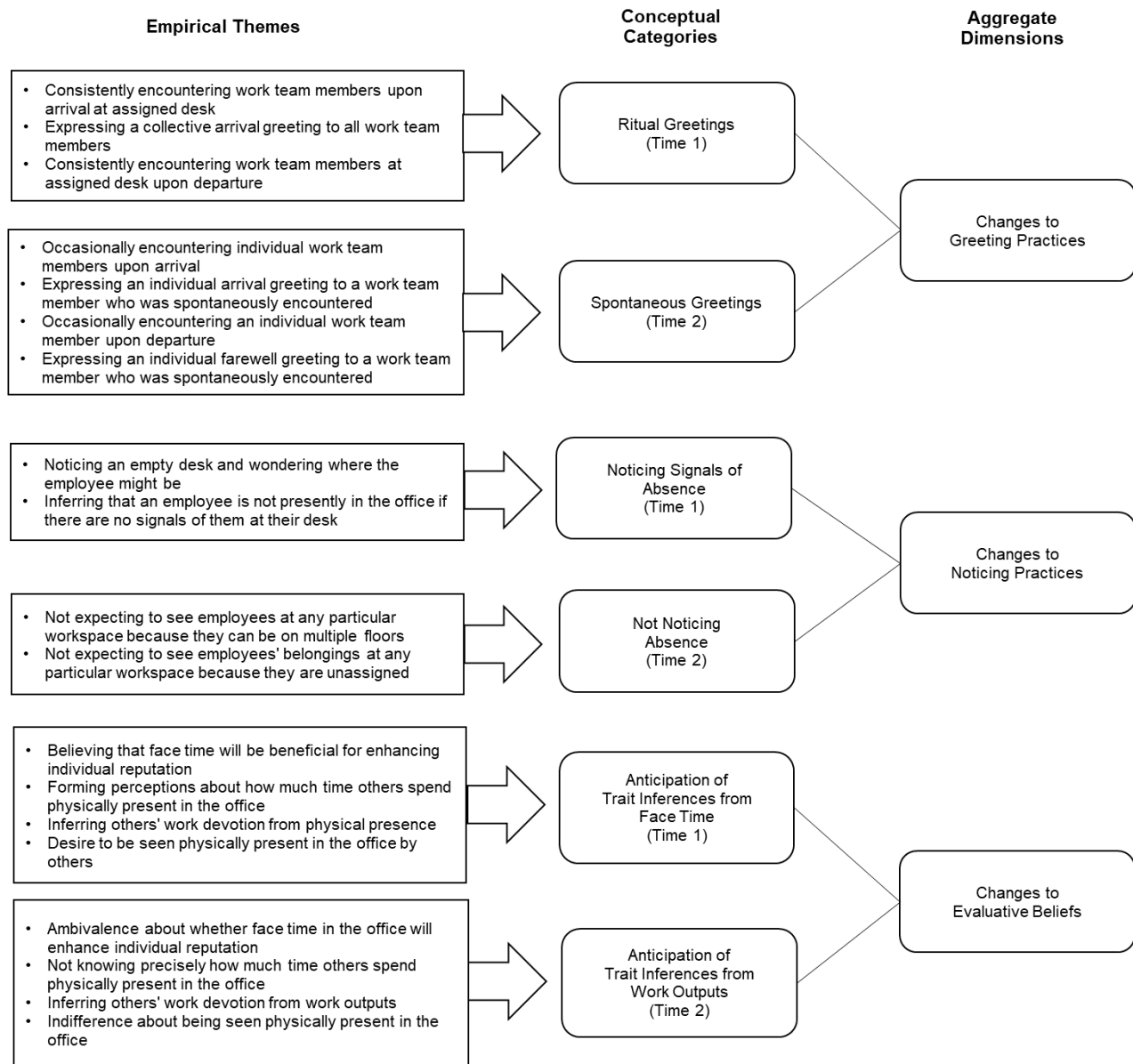
The new BigCorp Campus appeared to reduce employees’ concerns about managing perceptions of work devotion through constant physical presence. Many employees described feeling more comfortable using flexible work policies—working from home and flexible work hours—which many previously utilized with apprehension. As one employee explained:

Before when we had the cubicle setting, we could see where everybody is at the same time, and you felt the pressure to always be there. . . . Whereas now I’m at the customer at least three times a week, and to me I feel that it doesn’t matter where I work, and I think this [new] office environment enables it because I can go to the customer and then go to the coffee shop and work from there between another customer call. (MS20)

This was initially a puzzling finding given that the office redesign was created to reduce real estate costs and was not conceptualized as a work–life balance initiative. The office redesign was not accompanied by any other notable changes at BigCorp—company policies, senior leadership, work demands, and work processes all remained constant during this period.

Why did employees feel more comfortable accessing flexible work policies after the office redesign? Drawing on rich qualitative data from interviews and observations, I identify the mechanisms underlying increased temporal flexibility. I find that the office redesign disrupted several taken-for-granted social practices—greeting practices, noticing practices, and evaluative beliefs—with employees consequently experiencing greater temporal flexibility in the new office space. Figure 1 summarizes the data structure for changes between Time 1 and Time 2, visualizing how I moved from empirical themes to conceptual categories and aggregate dimensions in the analytical process.

Figure 1. Qualitative data structure for changes in the old and new office spaces.



Changes to greeting practices: From ritual greetings to spontaneous greetings. Prior to the office redesign, I observed several greeting practices that reinforced awareness of colleagues' presence in the office. When employees arrived at the office each morning, they would usually greet their team while setting up their workspace. While taking out their laptops and

arranging their belongings, employees would spend a few minutes casually socializing, discussing their weekend plans, children's activities, and other personal matters. This almost always occurred each time a colleague entered the office, resulting in a mutual awareness of the order in which colleagues arrived in the morning:

It was nice to say hi to your team and sort of chit chat a bit as people trickle in. But you do end up getting a sense for who comes in when, and those sorts of daily pleasantries do make you a bit self-conscious about when you come in . . . because even though you don't want to make an entrance, it's hard not to when everyone's there to acknowledge you. (ML14)

Another informant explained that “you feel obligated to come in early in the morning just because of the fact that you're going and sitting beside your manager” (FS41). Employees would engage in a similar greeting ritual at the end of the workday. When leaving the office, they would typically address their work team with some kind of farewell greeting: “Okay guys, I'm heading out. Have a great evening!” These greeting rituals occurred with great predictability and represented a seemingly inevitable routine until they were disrupted after the move to the BigCorp Campus. As one informant told me:

In the old environment, my cubicle was right next to my manager. And he was pretty traditional in the sense that he would come in bright and early and leave pretty late. And so when I'd be ready to leave the office in the evening, I'd look over and see that of course he is still there. Like, I knew that as far as productivity was concerned . . . I probably wasn't going to be getting much more done. But sometimes I'd hesitate to leave with him still there—not that he'd say anything bad. He'd be very polite and tell me to have a good night. . . . Whereas now [in the new office space], he doesn't see me at the end of each day. So it's not a given that we would have that interaction. (ML40)

After the office redesign, greeting rituals no longer occurred in a routine manner. Employees began their mornings at different workspaces and were no longer consistently seated with the same group of colleagues. When they arrived at work, they would no longer sit in a designated area with their entire work team. While they might randomly encounter colleagues

while walking through the office or choose to sit with colleagues that they notice, this was no longer inevitable. The same was true when leaving the office at the end of a workday: employees would no longer extend a farewell greeting to their team before leaving the office. As such, formerly predictable greeting rituals gave way to unpredictable, spontaneous greetings in the BigCorp Campus. This led employees to feel more comfortable using the flexible hours policy because their arrival and departure times were no longer highly visible. As informants explained:

Yeah, it was always flexible before, but just the fact that you know that people know if you are in the office or not, even if I didn't have to be in the office. . . . You were like "oh, people will know exactly what time I came in and know exactly what time I left"—which shouldn't matter, but I feel like subconsciously you don't want people to be always aware of every single thing. So in this environment it is awesome because sometimes you are here earlier, and sometimes you are here later. (FM27)

I think when you have a dedicated space you do expect to see other people, like my team or my boss or whoever. If people expect you to be here every morning, people expect to see you, and when you are not there it is obvious. But [in the new office space] . . . it feels like now it matters less exactly where you are. (MS29)

The elimination of assigned workspace made it easier to arrive and exit the office discreetly. If other employees saw someone entering or exiting the office, it was unclear whether this actually represented that person's arrival or departure from the office, rather than simply representing a break from work. One informant explained how she was able to attend a medical appointment without concerns about negative judgments that existed in the old office space:

I recently came in at 10 because I had an appointment, and it just so happened that [the company president] and [vice president of sales] were sitting right there as I walked into the office. And I didn't really have qualms about "will they see me coming in late?" because for all they knew I could have already come in and gone. Like, it was late enough that I could have been going out for coffee. I mean, it just so happened that I actually was showing up for work at 10 that day because of the appointment. . . . So I actually think it's a little bit enabling versus [the old space]. (FS4)

The change in greeting rituals also reduced anxieties about inaccurate perceptions of arrival times to the office. One informant explained that to save time commuting, he would always arrive in the office long before rush hour, starting work a few hours before the rest of his team and thus leaving much earlier than them. With nobody present to see him arrive at the office so early in the morning, he would worry that his colleagues might incorrectly assume he was leaving work early at the end of the day:

For me to leave at 4 is no issue [after the office redesign]. I think in the old environment, I felt less comfortable doing that. It's very rare that people leave at 4. It's not the norm. I think people come in later and then stay later. . . . I know that I am an early bird. . . . So they wouldn't see me come in but they *would* see me leave. (MS20)

Others also felt less concerned about misperceptions about when they ended work. With the spontaneous greetings produced by the new office, it was less likely that colleagues would notice departures and fail to recognize continued working activities occurring off-site. One informant explained that he no longer worried about work time during his long commute being unrecognized:

[In the old office] I certainly felt like I would have to justify my time schedule to other people. Commuting from [a distant town] is a drain, so I like to work during my commute. But then, people might have wondered, "Why is he coming in at that time and leaving at that time?" Well, I've put in two hours of work time on my commute, which you don't see but which people might have that perspective of "Oh well, he's not putting in his time." No, I am putting in my time. Everyone puts in their time. People put in time at home, when they might be sitting down with the family and they're working on stuff. People don't necessarily see that. So now [in the new BigCorp Campus] you don't feel like you're being watched or judged for your time and how you're spending it. Because you shouldn't be. It should all come down to whether you're delivering on your results. (MS32)

The spontaneous greetings after the redesign did not appear to reflect intentional efforts to prevent colleagues from tracking one's time spent in the new office. Employees would still sit with team members at times, but this happened spontaneously—when they crossed paths—rather than predictably. The reason employees did not consistently cluster with team members was because of

the large size of the office and the meeting-based culture that encouraged movement throughout the day. First, since the office spanned several floors, all members of a work team were unlikely to be on the same floor at any given time. Even if they were on the same floor, two people would not necessarily see one another because of the considerable size of each floor and the walls separating different types of work areas. This finding is consistent with responses to a survey item showing a decrease in the extent to which employees knew where to find one another after the office redesign (see Appendix A). Second, the company's meeting-based culture meant employees' workdays generally consisted of a mix of meetings and "heads-down" work time. The company survey provides support for this meeting culture, as employees reported spending on average 27.9 percent (S.D. = 19.54) of their work time in meeting rooms across both time periods. Frequent meetings reflected the team-based nature of the company, with employees working on cross-functional teams and needing to meet with different functional experts to ensure smooth delivery of their sales operations. Employees would frequently book meeting time with colleagues through Microsoft Outlook's calendar system, which allowed employees to self-manage their available meeting timeslots. Hence employees would not typically sit in one spot for the entire day and would instead move among different workspaces and meeting rooms located across different floors of the office.

By eliminating assigned workspace, the office redesign disrupted the daily greeting rituals that routinely occurred in the old office during arrival and departure times. The new office space produced a shift from greeting rituals to spontaneous greetings, contingent upon running into work team members when arriving at the office or leaving at the end of a workday. This reduced the extent to which employees worried about colleagues' and managers' perceptions of their work time and consequent trait inferences about their dependability and commitment. With less concern

about career penalties arising from flexible work policy use, employees experienced greater temporal flexibility, setting their start and end times with less fear of negative judgments from others.

Changes to noticing practices: From noticing signs of absence to not noticing absence.

The old office also encouraged noticing practices, with the visibility of employees' assigned desks heightening concerns about career penalties for employees wanting to occasionally work from home. Because employees had grown accustomed to seeing the same people around them each day, an empty desk would serve as a highly salient visual cue alerting others to the fact that someone was not physically present in the office. As one informant described, "It was like there was a stigma if you were not behind your desk" (FI18). In the old office, it was quite obvious when an employee was working in the office, even if they were temporarily away from their desk. Artifacts such as a half-full coffee cup, a bag of chips, a jacket on the back of a chair, a purse on the floor, or a secured laptop could all symbolize their presence. In the old office, the material cue of an empty desk led some to feel anxiety about negative judgments produced when accessing the work-from-home policy:

I think what role [the office redesign] has played is that you don't feel that bit of the formality of "if the lights are not on in your office, where are you?" Does that make sense? Whereas now if you are not seen, it doesn't mean that you are not working. Right? And so you don't feel as guilty. (MS23)

So previously, when I had a desk and I was sitting with my team, I felt a greater obligation to be here 9:00 to 5:00. Whereas today I did not have a meeting till 10:30. So I fired up my laptop and ate my breakfast in my pajamas and worked at my kitchen table from 8:00 right through quarter to 10:00, as I don't feel like I am being watched now. Whereas previously, [people would think] "Uh [he's] not at his desk, he is not working." . . . Before I would have been more reluctant to work part of my day at home. (MS17)

By eliminating assigned workspace, the new office space made it difficult to discern whether employees were actually in the office or working from home. Without an assigned desk

that was visibly empty, and without the expectation of seeing the same people each day, the new office made it possible to more discreetly access work-from-home options. Rather than noticing an empty desk where one might expect a certain colleague to be working, the new office featured many workspaces scattered across multiple floors. In this new configuration, employees would not expect to see colleagues or managers at any specific workspace. As informants explained:

You're not expected to show up in any one place. If your desk is always in one place, it's very obvious when you're not at the desk. Even when you're in a meeting or something, someone will notice. Over here, nobody really notices whether you're here or not. I mean, people notice you when you're here. But if you're not here and working from home, people might just assume that you're sitting on another floor or in a library area. So if you have to do a doctor's appointment and come in late, there's less of the tail between your legs. (FS44)

I [no longer] have a place to sit down. I don't have to worry that I have a place beside you and you never see me. . . . You'll see me when you see me. And I'll see you when I see you. . . . It's more fluid. So I think, for me, I don't feel the need to come in every day and be seen. (FM21)

Although employees described feeling less judged by colleagues and managers, many were quick to clarify that this had been a largely implicit process rather than purposeful monitoring. Employees' high mutual awareness of each other's presence or absence in the old office simply reflected a taken-for-granted noticing practice at BigCorp: "It's not that I used to keep track of people [in the old office], but you can't help but notice that someone is not at their cubicle when you see them there each day. It just triggers a thought that something is different. Whereas now, there isn't anything to trigger that thought" (MI46). Another informant explained that although she had always been supportive of flexible work policies, she would still find herself noticing when colleagues' desks were empty in the old office:

It's probably more of a mental thing. When you used to sit in a specific spot all the time [in the old office] with your department, your manager was there, your associate director was there. People were looking for you, and if you didn't show up physically, it was like "Oh, where's so-and-so today?" . . . I can even remember myself thinking, "Why is that

person coming in late?” Like, even in *my* head. I think that’s gone, and I think it gives everybody more ownership for making sure that they get their stuff done no matter where they are. Even if people are going through stressful times in their personal life, or illness or whatever, you don’t think “Uhh, I’d better get in so that people see me.” It’s more, “I want to get my work done, so maybe I’ll stay home and do it.” (FS10)

The office redesign made it more difficult to discern whether employees were working on a different floor in the office, working from home, or visiting customers. In the old office, employees would expect to see colleagues at their assigned desks and would notice deviations from this expectation. These noticing practices led employees to fear flexibility-related career penalties arising from trait inferences about their dependability and commitment. After the office redesign, employees did not have a single assigned desk to draw attention to their presence or absence. In the new office, the material environment no longer triggered moments of noticing absence and contemplating where an employee might be. Thus the change in the physical space produced a shift in noticing practices, making employees more comfortable using the work-from-home policy and increasing their level of temporal flexibility.

Changes to evaluative beliefs: From anticipating trait inferences from face time to anticipating trait inferences from work outputs. The changes in greeting and noticing practices were related to subsequent changes in evaluative beliefs, with employees experiencing less fear of career penalties associated with flexible work policies. Before the BigCorp Campus redesign, employees had assigned cubicles near their colleagues and managers, and this facilitated trait inferences of dependability and commitment from patterns of physical presence in the office. Consequently, informants expressed a need to “show up and be on” in the old office, experiencing pressure to be physically present in order to cultivate a strong professional image. As one employee explained, “In the old space, you had the traditional feeling that you had to punch in at 9, you had to punch out at 6. You may not have been productive in that time there, but it was an expectation

of the work environment” (MI46). It was well known that career advancement involved not just strong work results but also presenting a strong image of oneself in order to “inspire confidence” and “show up strong with senior leaders.” This was widely acknowledged among employees and openly discussed in more formal contexts such as professional development talks with senior executives and HR leaders. Moreover, being physically present in the old office meant inevitable exposure to one’s colleagues and superiors because physical presence provided opportunities to be seen:

If you're not seen, it's hard to have the image. . . . It’s just like a product. You want to be in front of the customer, but not just for the sake of it. You want to have the chance to communicate your brand equity. For a person, it’s the same thing. You want yourself to continue to be reminding others of who you are and what you stand for. (MM15)

After the move to the BigCorp Campus, managers no longer experienced constant daily exposure to all employees. Managers would continue to see their employees in meetings, as they did in the old office space, but managers would no longer see employees as consistently as they did when they had assigned space with their teams: “You're never working in the same space, you don't have a set spot that you go to. In the previous environment you would see [your team] on a day-to-day basis, versus now you'll see them on a project-by-project basis” (MM9). Although employees might run into their managers during the workday, such interactions no longer occurred predictably in the new space. As one informant explained,

As a manager I am no longer necessarily going to see all of my people every day before and after. . . . It has not been an issue so far, and I think it’s a little bit more empowering of a work environment. Like you have to take charge—what do I need to get done today? Who do I need to find? Do I need to set up time with them? You’re a little bit more in control of your work in making sure it gets done, but I don’t think that’s a bad thing. (FM5)

Informants did not complain about having difficulty getting work done due to less daily visibility to managers. Even though managers did not sit beside their employees every day as in the old space, they would continue to have weekly 1–1 meetings and weekly team meetings. These standing meetings occurred on all teams I observed, and managers could also find alternative ways to contact employees between standing meetings (e.g., e-mail, instant messenger, and requesting additional meetings).

Many managers felt that the new office configuration reduced their reliance on physical presence as a proxy for work devotion and increased the importance of actual work outputs. Company expectations remained as strong as ever, with annual bell-curved appraisals continuing to produce exactly the same quantitative distribution of employee ratings as before. However, managers could no longer form accurate perceptions about how much time employees spent at the office versus working off-site or how early or late they worked at the office. Many felt that this led to a greater reliance on employees' work outputs rather than the sheer amount of time spent at the office, diminishing the tendency to reward employees for long yet inefficient work hours:

I do think the BigCorp Campus has contributed to a more performance-based culture. I don't care if you're putting in 14 hours a day or if we never see you. Why should we give credit to people who are in front of a screen for 8 hours but don't accomplish anything? Not only is it costly, but it's not a good way of working. (Senior executive, field notes)

But then results speak for themselves now. . . . Do I really care if they spend every minute at their computer, or if they go for a dental appointment, or if they take a quick run down to Starbucks while they are working? Like not really. . . . The onus is put on that person. It's your responsibility to manage your heavy work load and deliver. And I actually see that people deliver outstandingly. We trust all our people, but I also know they have work cut out that is measurable, that has to be done, and that is not going anywhere. (FS16)

These changes in managerial evaluation practices were not lost on employees. Many felt that work outputs had become more important than face time in the formation of trait inferences: “It enables me to be more flexible with my time. . . . It doesn't seem like I need face time or I need

to be in from 9 to 5 because everyone else is. I can do what is most productive for myself and my team” (FI28). Even if employees attempted to manage perceptions by coming in early in the morning or leaving late at night, such tactics were no longer likely to be noticed in the new office space. Efforts expended on building a reputation through superficial appearances were thought to be less effective than before: “You’re going to get dressed, but you’re not going to be dressed in a certain way, like ‘Is the shirt pressed? Are my shoes all shiny?’” (MS3). Managers and colleagues would not observe an employee spending long hours at the office unless they happened to be on the same floor during the same duration of time. Apart from meetings with team members or managers, being physically present at the office no longer ensured hours of visibility, as it had in the old office. Greater equivocality about flexibility-related career penalties enabled many to feel more comfortable working from home or using flexible work hours: “I don’t have to get up so early, to rush to work, to get the transit or ride in, and in the evening I don’t even have to rush back. . . . So I feel more productive and rested” (FS13). After the office redesign, informants described feeling less concerned about signaling devotion through physical presence and more concerned about work outputs:

I know what I need to do to get my work done. I need to do that whether I’m working from home, working in the car, working at the customer side, sitting in [the BigCorp Campus]. It doesn’t make a difference. . . . It’s no longer about dressing up and coming into the office and sitting in a meeting but not necessarily contributing. (FS2)

As much as we have historically said we live in an entrepreneurial work environment, it was not an entrepreneurial work environment. The new BigCorp Campus much more lends itself to that kind of a feel. You really become accountable for your deliverables. How you get there, as long as it’s following the rules, is up to you. But you’ve got to deliver the deliverables. It’s a much more of an adult type of environment as compared to the old space, which was much more of a traditional child–teacher type environment. (MS49)

In short, the office redesign changed employees' evaluative beliefs, with employees shifting from anticipating trait inferences from face time to anticipating trait inferences from work outputs. Because managers experienced a decline in the salience of physical presence as a proxy for work devotion, employees felt less anxious about lost opportunities for reputation-enhancing exposure and less concerned about the potential for negative judgements from others when accessing flexible work policies. These changes in the physical space led employees to believe that face time had a less important role than work outputs in the formation of trait inferences, and employees consequently accessed flexible work policies and experienced greater temporal flexibility in the new office space.

Company survey data support the qualitative evidence that workers experienced greater temporal flexibility in the new office space (see Appendix A). Employees reported statistically significant ($p < .001$) decreases in pressure to stay late or come in early in order to demonstrate commitment to managers or peers. Employees also reported working an additional .27 days from home per week in the new office, equivalent to an annual increase of 14 days or 112 labor hours ($p < .001$). Because working from home is a highly valued perk, however, employees may have had incentive to underreport changes in utilization to avoid negative management perceptions in a company survey. Thus while the true effect size is difficult to estimate, the quantitative results are statistically significant, and the pattern of results is consistent with the qualitative findings.

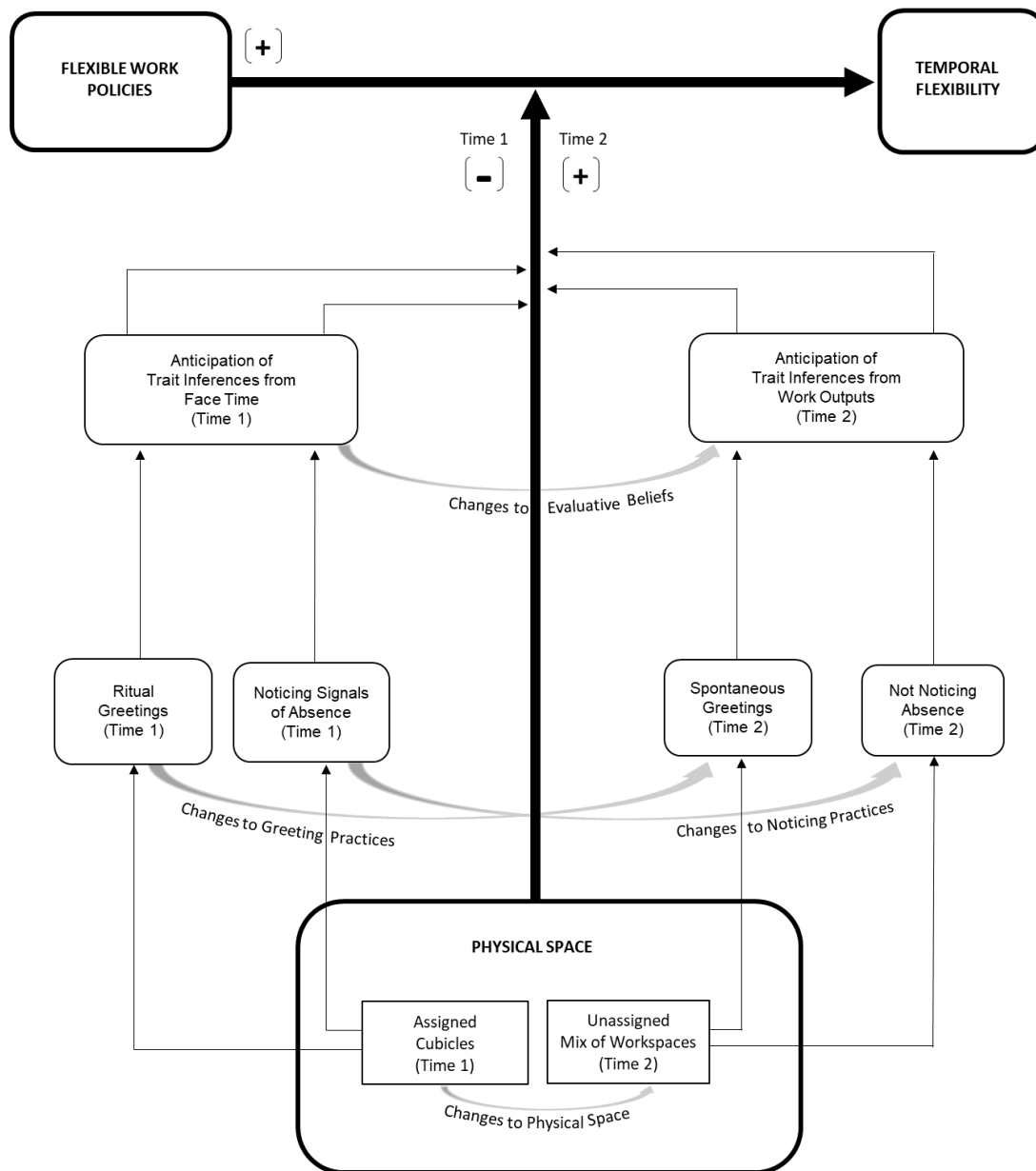
Discussion

Flexible work policies have diffused widely across organizations, and yet employees often experience very limited temporal flexibility. Organizational scholars have explained this flexibility paradox by citing employees' fears of career penalties arising from trait inferences about their

dependability and commitment. Studies have shown that this is why employees routinely forgo beneficial flexible work policies and instead spend long hours at the office so they can be seen by colleagues and managers (e.g., Correll et al., 2014; Reid, 2015). Yet little is known about how structural workplace conditions might affect the relationship between flexible work policies and temporal flexibility. The present study identifies the physical space as a powerful structure affecting employees' decisions to use flexible work policies. Using field research during an office redesign at a single organization, I find that the physical space powerfully structures social life, undergirding evaluative beliefs about the importance of “face time” for cultivating perceptions of dependability and commitment. This organization's change in physical space disrupted taken-for-granted social practices, with employees experiencing less fear of career penalties related to their use of flexible work policies and consequently increasing their use of those policies.

The study's core contribution is to identify how physical space can moderate the relationship between flexible work policies and temporal flexibility. Figure 2 summarizes the model that emerged from the findings. The change in physical space at BigCorp—from assigned cubicles to a mix of unassigned spaces—disrupted and transformed taken-for-granted social practices and evaluative beliefs. This involved a shift from greeting rituals to spontaneous greetings, from noticing signs of absence to not noticing absence, and consequently from employees anticipating trait inferences from face time to anticipating trait inferences from work outputs. In the new office space, employees felt less pressure to spend long hours physically present at the office to demonstrate their work devotion to others. The changes in greeting practices, noticing practices, and evaluative beliefs led employees to increase their utilization of flexible work policies and to experience greater temporal flexibility in the new office space.

Figure 2. Model of physical space as a moderator in the relationship between flexible work policies and temporal flexibility.



This theoretical model advances research on temporal flexibility by anchoring employees' fears of career penalties to concrete social practices embedded in the physical work environment. Prior studies have tended to describe the stigmatization of flexible work policies as a stable aspect of organizational culture, using concepts such as work devotion norms (Williams, 2000; Blair-

Loy, 2003), the ideal worker image (Kellogg, 2011; Reid, 2015), and perceptions of unsupportiveness (Behson, 2005; Hammer et al., 2011) to explain why employees anticipate career penalties associated with using such policies. These explanations have been useful for understanding why limited temporal flexibility often exists in organizations, but they do not specify the structural workplace conditions that facilitate negative trait inferences of dependability and commitment. This study locates these subjective employee perceptions of risk within specific social practices that are contingent on the structure of the physical environment. This sheds light on how fears of flexible career penalties arise through everyday interactions that are largely taken for granted in organizations. By “emplacing” temporal flexibility, the study suggests that these stigmatization processes may be more structurally determined than previously considered.

The findings also extend our understanding of social valuation processes in organizations by showing how physical spaces can alter the salience of face time as a proxy for work devotion. My findings offer support for research showing that face time produces spontaneous trait inferences of dependability and commitment (Elsbach, Cable, and Sherman, 2010), but I advance these insights by providing evidence that certain kinds of office space can reduce the returns to face time. This fits with Elsbach and colleagues’ (2010: 753) call for organizations to encourage managers to consider employees’ work output and contributions rather than time spent working in the office. This trait inference approach is consistent with the broader literature on social valuation (Lamont, 2012; Sauder, Lynn, and Podolny, 2012), which suggests that valuations are shaped by both objective factors (i.e., performance) and socially constructed factors (i.e., status beliefs), and that self-interested actors often attempt to exploit socially constructed factors to bias valuations (Zuckerman, 2012). I advance this valuation literature by providing a novel empirical case of physical space altering the relative salience of established valuation criteria. This suggests that

employees' strategies for valuation opportunism inside organizations—for example, exploiting face time to encourage trait inferences of dependability and commitment—can become less successful over time when the physical space changes and valuations become anchored more closely to objective conditions.

The findings also build on research examining interventions for improving temporal flexibility, identifying physical space as an unexplored pathway for change. Prior studies have focused on interventions using training and dialogue to cultivate support for work–family policies (Kelly, Moen, and Tranby, 2011; Perlow, 2012; Kelly et al., 2014; Moen et al., 2016). Identifying physical space as an unexplored intervention strategy is an important contribution because extant training-based interventions experience several limitations: companies focused on cost reduction may be unlikely to adopt them, effective implementation involves considerable effort, and sustaining the culture change may be challenging in the long term (Perlow and Kelly, 2014). Leaders are often hostile toward efforts to challenge the dominant 24/7 work culture (Kellogg, 2011; Padavic, Ely, and Reid, 2020), which is why many extant interventions fail to produce meaningful change. By contrast, non-territorial or activity-based offices are often adopted for cost-reduction purposes rather than purposive efforts to challenge the work culture. This type of structural intervention might create more enduring change than episodic interventions. Thus physical space may represent a fruitful avenue for future research on temporal flexibility.

Although the study examined a change in physical space in a single organization, the theoretical model should be transferable to other organizational contexts. The key social practices disrupted by the physical space occur in many organizations; they are not unique to BigCorp, nor is the broader concern about face time. My informants' experiences are also consistent with many descriptions of anxiety about flexibility-related trait inferences in the literature (Moen et al., 2013;

Williams, Blair-Loy, and Berdahl, 2013; Reid, 2015). In additional analysis of the company survey data, I did not find that the effect of physical space varied by department or demographic group, which further suggests the findings may be relevant to other work contexts or employee populations (tables available upon request). Yet companies may not be equally likely to adopt such an office design, particularly if executives do not perceive non-territorial or activity-based spaces as compatible with the nature of their work (e.g., if employees never work off-site or visit clients). Finally, it is important to note that BigCorp is somewhat unusual in that it had high baseline management support for temporal flexibility. One might expect to observe even larger effects in organizations where baseline support is lower and employees' fears of flexibility-related career penalties are more salient. Future research should more systematically explore the moderating effect of physical space across workplaces with varied work content and baseline levels of support.

This study builds on organizational research on physical space (Elsbach and Pratt, 2007), offering empirical evidence of how physical spaces can structure social practices in organizations. Psychological studies have shown that physical spaces can induce sensory responses (Zhong and House, 2012), and social network studies have demonstrated the power of proximity in determining tie formation (Rivera, Soderstrom, and Uzzi, 2010). But what remains undertheorized is how physical space can produce relational consequences in organizations, affecting everyday employee work behaviors (Elsbach and Pratt, 2007; Harvey, 2010). I build on recent relational studies of physical space (Elsbach, 2003; Millward, Haslam, and Postmes, 2007; Kellogg, 2009; Bernstein, 2012; Manning, 2014), illustrating how changes in the configuration of space can disrupt and transform extant social practices in organizations with important consequences for temporal flexibility. This study thus offers additional empirical evidence of a relationship among physical space, social practices, and social cognition. This practice-based approach represents a

productive way to uncover how physical spaces structure patterns of interaction through ritual or routine behavior.

Finally, the findings add nuance to research on physical space in organizations by suggesting that some types of non-territorial office designs may be more beneficial than previously considered. Prior studies of non-territorial office designs have tended to focus on negative outcomes, highlighting conflict over ownership of space (Brown, Lawrence, and Robinson, 2005) or emphasizing the role of personalization (Byron and Lawrence, 2015) and consequent identity threat (Elsbach, 2003). In contrast, I did not find any evidence of these particular negative outcomes at BigCorp or any other negative unintended consequences of the office redesign. My interview informants generally expressed greater satisfaction with the new office space, as did the company survey respondents. But the office redesign in this study differed from that examined in many previous studies of non-territorial designs in that it removed assigned space while also adding a mix of heterogeneous space options available to all employees. The study thus calls attention to the importance of design variations in non-territorial offices. By highlighting the positive role of physical space on temporal flexibility, the findings balance the existent focus on negative outcomes in the literature, suggesting that certain types of non-territorial offices may yield different behavioral outcomes.

Extensions and Future Directions

Future research should more carefully examine the productivity implications of activity-based or non-territorial office spaces. Employees may be more productive in these spaces for several reasons. First, employees may spend less time on valuation opportunism (e.g., face time) and more time on activities more directly related to advancing organizational goals. Second, greater temporal flexibility may increase employees' commitment to the organization, reducing their turnover risk

and increasing positive organizational citizenship behaviors. And third, if employees are better able to accommodate their work–family needs, they may experience less family-to-work strain, improving their productivity during work hours. Yet there is also potential for performance to decline if employees are less productive while working from home or if they begin to prioritize personal needs over work responsibilities. Although employees and managers I spoke to described neutral or positive productivity effects, it is difficult to assess whether work performance actually improved as a result of the office redesign. During my 14 months at BigCorp, I did not observe obvious indicators of decreased productivity after the reconfiguration of space (e.g., managers complaining about employees’ lack of commitment). My informants were also quick to emphasize that they used the policies in accordance with business needs. Moreover, based on their internal performance measures, senior executives were not concerned about negative productivity effects and did not add any restrictions to the company’s flexible work policies. While these insights are suggestive, a limitation of the study is that I did not have data directly measuring worker productivity. This represents a promising avenue for future research as it fits with calls to develop and test the business case for temporal flexibility (Correll et al., 2014).

Although collaboration was not the focus of this study, my findings have interesting implications for understanding how physical spaces can shape collaboration in organizations. Many informants told me that in the old office space, they tended to interact only with people assigned to the same floor, whereas they were exposed to a wider range of people in the new office space. This suggests that office designs encouraging movement across spaces (such as between floors of a building) may be able to alter daily interactions and perhaps even the more durable structure of employee networks. Although network research has long shown that people who are located near one another are more likely to form social ties (Festinger, Schachter, and Back, 1950;

Reagans, 2011; Sailer and McCulloh, 2012; Chown and Liu, 2015), less is known about how spaces can be redesigned to encourage greater network diversity. My study suggests that non-territorial or activity-based spaces may help overcome functional boundaries, encouraging interaction between employees from different parts of the organization. Future research could systematically assess these effects, using office redesigns to understand whether non-territorial spaces might affect network diversity and whether these changes can improve the diffusion of knowledge across the organization.

Another promising direction is to assess whether non-territorial workspaces might affect career penalties related to flexibility, such as reductions in salary trajectories and promotion chances. Although my findings show that the change in office space reduced employees' fears of career penalties, this provides only suggestive evidence about the reality of career penalties. Because my focus was on understanding employees' decisions to use flexible work policies (or not), what ultimately mattered was their perceived risk of career penalties (whether accurate or inaccurate). There is good reason to think employees' perceptions may have been accurate and that flexible policy users experienced fewer career penalties in the new office space due to the declining salience of face time. But this issue warrants further investigation because it could have implications for remediating workplace inequalities arising from differences in employees' ability to work extreme or unpredictable hours (Pedulla and Thébaud, 2015; Goldin and Katz, 2016). Future research might use longitudinal HR data to systematically assess whether the salary trajectories and promotion chances of underrepresented groups change in periods with a non-territorial versus open-cubicle office design.

The diffusion of new office designs should create exciting opportunities to better understand the effects of physical space in organizations. Popular business press articles have

described the ubiquitous open-cubicle office design as “soul-destroying” (Bennett, 2014), declaring that “the open-office trend is destroying the workplace” (Kaufman, 2014). As managers search for better solutions and experiment with new office designs (Davis, Leach, and Clegg, 2011), researchers should be able to examine how different features of the physical environment shape patterns of interaction. Organizational scholars can exploit these new sources of variation to better understand the consequences of physical space for a variety of organizational outcomes such as knowledge sharing, performance, and innovation.

Organizational scholars have long noted that workers’ temporal flexibility is limited despite the widespread adoption of flexible work policies. By identifying physical space as a moderator in the relationship between flexible work policies and temporal flexibility, this study reveals a structural underpinning of this flexibility paradox. The findings here suggest that the stigmatization of flexible work policies does not represent a stable or amorphous aspect of organizational culture; instead it unfolds through concrete social practices that are facilitated by the physical space. Far from serving as a passive background, the physical space that workers find themselves in powerfully structures organizational life in ways that are often taken for granted yet deeply consequential.

APPENDIX

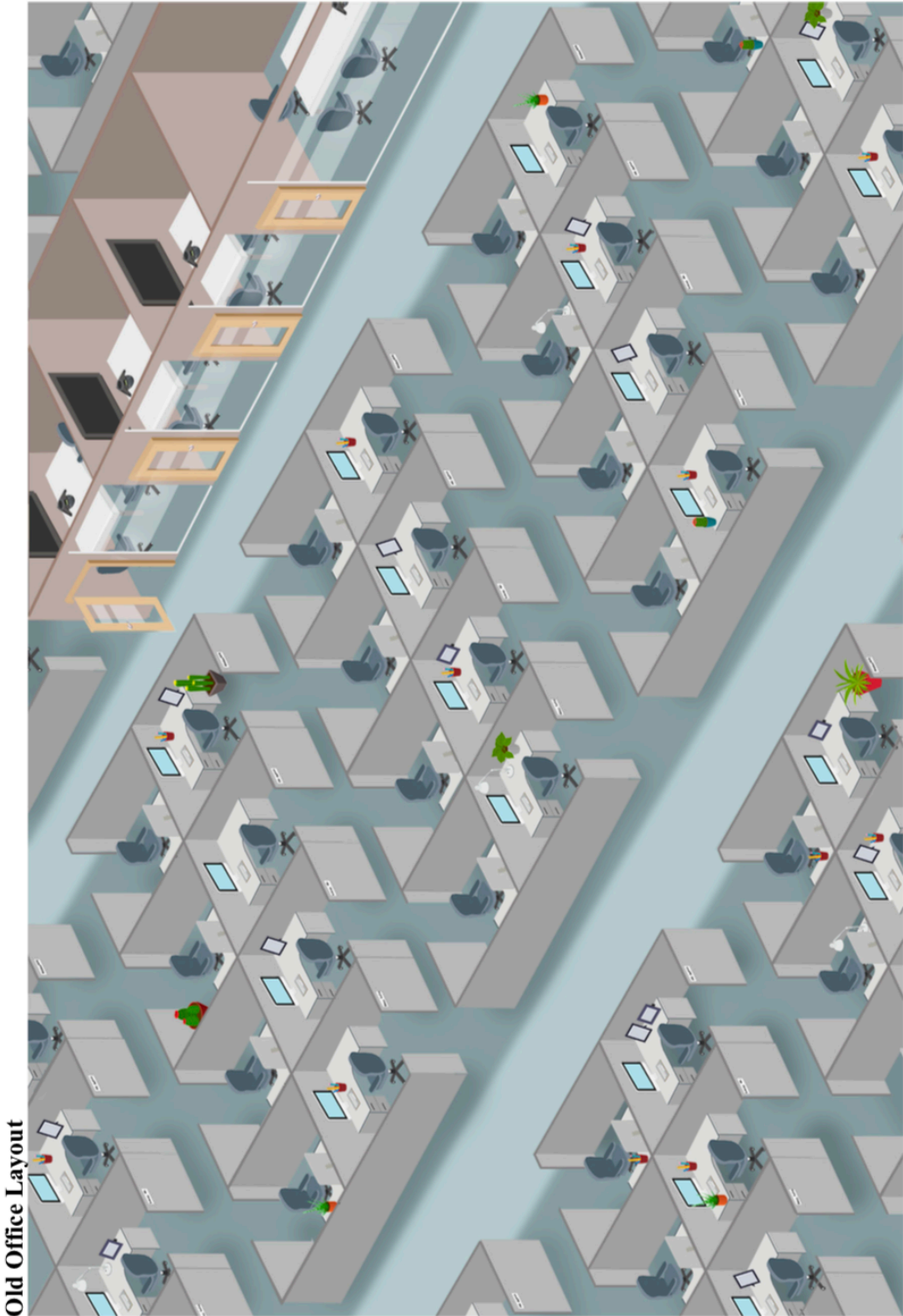
Appendix A: Means and Mean Differences from Retrospective Company Survey (N = 312)*

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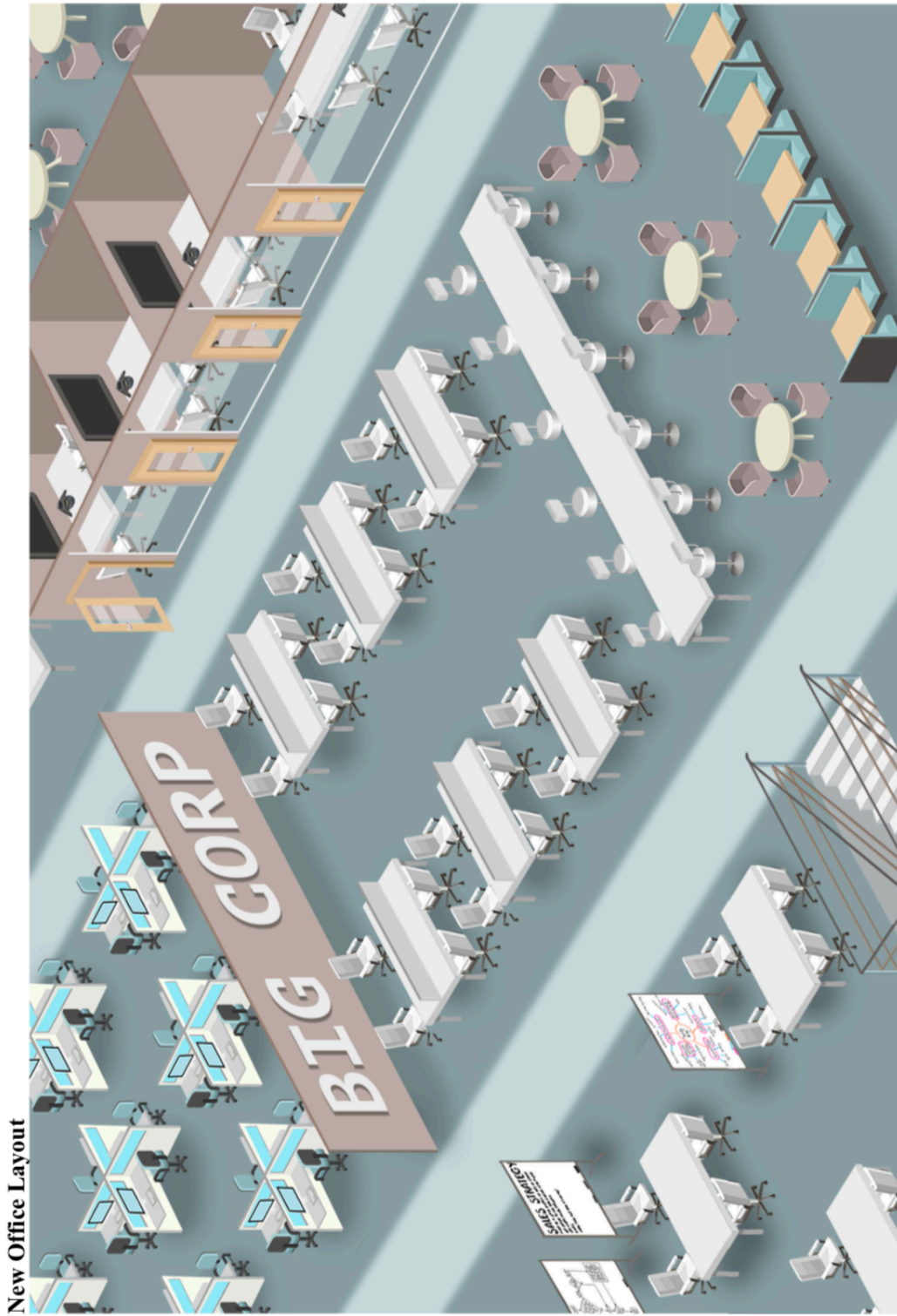
Item	Item Text	Old Office Rating		New Office Rating		Within-subject Change Mean Difference (S.E.)
		Mean (S.D.)	Mean (S.D.)	Mean (S.D.)	Mean (S.D.)	
Days worked from home per week	“As part of the Flexible Work program, BigCorp strives to promote a work environment where employees feel comfortable leveraging flexible options to enable work/life balance. Last week how many days did you work from home? In the previous office space, how many days did you work from home in a typical week?”	1.43 (1.14)	1.70 (1.29)			.27*** (.06)
Pressure to forgo flexible hours	“Do you feel pressure to stay late or come in early in order to demonstrate commitment to managers or peers?”	2.12 (1.07)	1.90 (0.95)			-.22*** (.04)
Satisfaction	“When you are working at the office, do you feel satisfied with the overall office space?”	3.54 (0.82)	3.89 (.89)			.35*** (.07)
Location knowledge	“When you are working at the office, if someone has a question for you, would they know where to find you in the office?”	4.42 (.73)	3.32 (1.07)			-1.10*** (.07)

• $p < .05$; •• $p < .01$; ••• $p < .001$.
 * All items use a 5-point Likert scale: 1 = never, 2 = rarely, 3 = sometimes, 4 = often, 5 = all the time except for days worked from home.

Appendix B: Renderings



Old Office Layout



CHAPTER 2
UNDER PRESSURE:
EVIDENCE FOR THE STRAIN THEORY OF
ORGANIZATIONAL MISCONDUCT

Abstract

Strain theory has long been invoked to explain the prevalence of misconduct in organizations, with underperformance creating pressure for managers to engage in illegal activities. Drawing on research on risk-taking, I theorize a ‘legal risk’ effect, where firms’ response to performance strain is contingent upon both internal legal capacity and external legal risk. I further predict that underperforming firms will be most likely to engage in proximate forms of misconduct (economic and labor misconduct) which are subject to short-term managerial discretion, as compared to distal forms of misconduct (environment and product misconduct) that tend to arise from carelessness or complexity. I find support for these propositions using longitudinal data on material legal claims filed against S&P1500 firms between 2000-2017. The study supports and builds on the strain theory of organizational misconduct, advancing our knowledge of when and how performance strain is most likely to manifest in particular kinds of morally objectionable activities.

Keywords: strain theory, organizational misconduct, managerial discretion, legal risk, illegality

Misconduct is a central problem for organizational scholars, with considerable effort devoted to understanding deviant behavior that violates ethical principles and social norms (Greve, Palmer and Pozner 2010; Palmer 2017). Recent research demonstrates how organizational misconduct can harm the focal organization as well as the local communities in which it operates (Sullivan, Haunschild and Page 2007; Piazza and Jourdan 2017; Dorobantu, Henisz and Nartey 2017; McDonnell and King 2018). Although we know that misconduct can harm a range of stakeholders, we know more about the consequences of misconduct, as compared to the underlying causes of misconduct in organizations. In particular, we lack an understanding of how misconduct varies over time as managers make sense of changing internal and external conditions.

This article aims to explain why organizations engage in misconduct during certain periods but not others. I focus on strain theory, a classical sociological theory of deviance (Merton 1938) which has been re-theorized by organizational scholars as part of the performance feedback process central to the behavioral theory of the firm (Greve, Palmer and Pozner 2010). Strain theory predicts that performance strain—the gap between an actor’s aspirations and its capacity to achieve those aspirations—creates pressure for managers to improve performance by any means possible, leading them to resort to misconduct (Simpson 1986; Palmer 2017). I draw on research on risk taking in organizations to further elaborate on this classical strain theory. First, I theorize a ‘legal risk’ effect, where having strong internal legal capacity leads managers to feel less individual responsibility for legal risk, instead viewing it as the responsibility of the organization’s legal department. I also propose that external legal risk should weaken the effect of performance strain since managers will be less likely to resort to misconduct when the perceived threat of enforcement is higher. Finally, I suggest a distinction between proximate misconduct that reflects managerial

efforts to reap short-term gains and distal misconduct which tends to arise from negligence and human error and is farther removed from managerial discretion.

I test this theory using a dataset containing material civil litigation claims filed against S&P1500 firms between 2000-2017. This approach offers two main advantages. First, it enables differentiation between different types of misconduct, overcoming a limitation of extant research which tends to focus on a single genre of misconduct such as fraud (Yiu, Xu and Wan 2014, Fligstein and Roehrkasse 2016, Yenkey 2018), Clean Air Act Violations (Short and Toffel 2010), wage arrears (Earle, Spicer and Peter 2010) or product recalls (Zavyalova et al. 2012). Although the single genre approach can be helpful for developing theories about particular historical instances of misconduct, it provides less insight about the conditions that make some misconduct activities more likely than others. Second, the data covers 1,381 firms over 17 years with substantial variation on misconduct due to the comprehensive litigation measure. This facilitates a within-firm analysis that helps account for time-invariant factors unique to each firm. Consistent with strain theory, I find that firms are more likely to engage in misconduct during periods when they perform below aspirations, an effect that is moderated by internal legal capacity and external legal risk, and tends to manifest in economic and labor misconduct.

The analysis answers two inter-related research questions: When does performance strain increase the risk of misconduct? What kinds of misconduct are most likely to arise when firms experience performance strain? Although strain theory offers a compelling and parsimonious explanation for organizational misconduct, it does not explain when performance strain will be most acutely felt by managers. Qualitative studies suggest that features of the organizational context can intensify performance pressure (Vuori and Huy 2015; Espeland and Sauder 2016), as managers engage in sensemaking to identify solutions to underperformance based on the

organizational and environmental context. Since few firms consistently meet or exceed performance goals, it is all but inevitable that firms will at some point experience periods of underperformance. Hence, it is crucial to understand when managers are most likely to resort to misconduct to improve performance, and to understand which types of misconduct are most likely to be triggered by short-term performance pressure.

The study contributes to the literature on organizational misconduct, advancing our understanding of when managers will be most likely to engage in deviant behaviors. The findings provide support for the strain theory of organizational misconduct, but they also extend the theory to explain when performance pressure will be most intense and the forms of misconduct that are most likely to manifest. In most accounts, misconduct is theorized as a micro-psychological phenomenon with lab studies examining individual differences in values, emotions or decision frames (Tenbrunsel and Smith-Crowe 2008; Treviño, DenNieuwenboer and Kish-Gephart 2014). By instead focusing on misconduct at the firm-level, I advance an explanation for why organizations engage in misconduct in some periods but not others. The findings indicate that performance strain triggers a problemistic search for solutions, with managers making sense of their internal and external environments as they decide whether to engage in misconduct in order to improve short-term performance.

THE STRAIN THEORY OF ORGANIZATIONAL MISCONDUCT

Strain theory was originally developed by sociologists of deviance to explain individual-level criminality. Merton (1938) first proposed the theory to explain the relationship between poverty and crime, arguing that deviance is most likely to occur when individuals accept cultural goals of financial success, but lack the institutionalized means to achieve these aspirations. The

gap between aspirations and attainment creates pressure to ‘innovate’, with individuals resorting to illegitimate means in order to achieve their goals.

Although strain theory was first examined at the individual-level, it is often applied at the firm-level to understand organizational misconduct—behavior that violates ethical principles, social norms, organizational rules and protocols, industry or professional guidelines and civil or criminal law (Palmer 2017). This is because the key mechanism, problemistic search for solutions, has long been central to the Behavioral Theory of the Firm. When performance falls short of aspirations, this triggers a problemistic search for solutions, where decision makers consider different strategies to improve performance (Cyert and March 1963; Greve 2003). Organizational scholars thus adapted strain theory to explain the prevalence of misconduct in firms, theorizing strain as a result of negative performance feedback. This firm-level explanation has since become one of the most frequently invoked explanations for organizational misconduct (Agnew, Piquero and Cullen 2009; Greve, Palmer and Pozner 2010; Palmer 2017), with some suggestive empirical support (Vaughan 1985; Gabbioneta et al, 2013; Palmer and Yenkey 2015; Xu, Zhou, and Du forthcoming).

Strain theory predicts that when organizational performance falls short of aspirations, problemistic search occurs, leading managers to seek out solutions to overcome the performance shortfall. Managers are thought to assess a range of solutions within their consideration set (e.g. innovation, operational efficiencies, misconduct), and stop the search once a solution is identified that is expected to improve firm performance. Localized search is often a starting point, with managers exploiting familiar knowledge that is within the firm’s expertise, practices and routines (Jung and Lee 2016; Laursen 2012), but they may also explore externally since local solutions may not be adequate for overcoming the performance shortfall and because external knowledge is often

required for riskier or more innovative solutions (Powell et al., 1996; Cassiman and Veugelers 2006; Puranam et al., 2015). In the context of misconduct, managers might begin the problemistic search by considering legitimate local solutions, but then resort to illegitimate solutions if these are deemed insufficient to overcome the performance shortfall or if external conditions appear favorable in terms of enforcement risk. Although empirical studies on performance feedback tend to blackbox the search process due to data limitations (Posen et al., 2018), we generally know that it involves simple models of causality and reliance on past experiences, reflecting managers' tendency to satisfice rather than assess all possible options in a comprehensive manner (Gavetti et al., 2012).

Managers experience considerable pressure to expediently identify a solution to overcome performance shortfalls. Many have noted a strong focus on short-term performance, rather than long-term sustainability, in part due to considerable scrutiny from boards and analysts (Mizruchi and Marshall 2016; Benton and Cobb 2019). Performance strain is acutely experienced in the upper echelons of organizations as boards move quickly to fire poorly performing CEOs (Ocasio 1994; Thornton and Ocasio 1999). However, performance pressure also reverberates downward as anxious top managers hold middle managers accountable for achieving their local performance targets (Vuori and Huy 2015; Espeland and Sauder 2016; den Nieuwenboer, Cunha and Treviño 2017; Mazmanian and Beckman 2018). Strain theory predicts that when performance falls short of aspirations, managers may feel pressure to resort to misconduct in order to improve performance:

Hypothesis 1 (H1): Performance strain (performance below expectations) is positively related to organizational misconduct.

The Role of Legal Risk

When managers engage in problemistic search for solutions to improve performance, their selection of a solution may depend on perceptions of risk associated with each potential solution under consideration. The organization's level of internal legal capacity—the degree to which the firms' legal department has power and influence inside the firm—might affect managerial perceptions of the riskiness of misconduct as a potential solution to overcoming a performance shortfall. Research on risk taking in organizations provides insights for how internal legal capacity may affect the level of legal risk that can be considered acceptable, as well as managers' perceptions of the consequences they may face if the firm is caught engaging in misconduct.

Internal legal capacity might reduce the tendency of managers to resort to misconduct if legal departments' main goal is to ensure compliance with the law. This is because assigning responsibility for an outcome to a formal role should increase accountability since individuals must act in a manner consistent with these role expectations (Tetlock 1985). This would ensure ongoing monitoring and updating on the outcomes delegated to the role, enabling the coordination consistent with their mandate (Okhuysen and Bechky 2009). Hence, formal roles are often created to routinize accountability for task domains that are deemed sufficiently important to organizational goals (Hackman and Oldham 1980; Wall and Martin 1987; Grant Fried and Juillerat 2008). Yet, it is not clear that legal departments' function is to increase compliance with the law. There is some evidence suggesting that legal departments' goals may be more closely aligned with the firm's financial performance, rather than to broader professional and ethical commitments (Werner 2019).

It seems more likely that internal legal capacity would embolden risk taking when managers consider misconduct as a potential solution to improve performance. There are two mechanisms through which this may occur. First, powerful legal departments may allow managers to engage in riskier behaviors as they aim to “manage legal risk” to increase firm profitability, rather than simply aiming to “reduce legal risk”. This is consistent with research showing how compliance experts often expand their goals in order to gain power and influence within the organization (Fligstein 1993; Dobbin 2009). This tendency has been observed in cases where compliance experts are initially hired to develop strategies in response to new regulations with ambiguous standards. These risk management experts tend to advocate for policies and programs that fuel the growth of their function, long after the initial compliance problem is resolved (Dobbin and Sutton 1998; Dobbin and Kelly 2007). Once established, compliance programs tend to expand beyond the initial goal, with risk management professionals often viewing their role as responsible for managing risk in order to maximize shareholder value (Pernell, Jung and Dobbin 2017). Thus, we might expect legal departments’ goals to be more aligned with overall firm financial performance, rather than the reduction of legal risk.

Second, internal legal capacity could increase the risk-taking behaviors of managers more indirectly, with managers passing responsibility for legal risk to powerful legal departments. Individuals tend to reduce policing of their own risky behaviors when they perceive that there are established organizational processes and resources to mitigate against risk (Castilla and Benard 2010; Kaiser et al. 2013). This is an adaptation of the moral licensing effect from social psychology, whereby prior virtuous behaviors reduce the need to display virtuous behavior in the present (Monin and Miller 2001; Merrit, Effron and Monin 2010; Blanken, van de Ven, and Zeelenberg 2015). Pernell, Jung and Dobbin (2017) refer to this as “organizational licensing”,

illustrating how the rise of Chief Risk Officers led trading-desk managers to increase their holdings of risky financial derivatives. Consistent with these studies, internal legal capacity may lead managers to abdicate personal responsibility for legal risk, reducing their perceptions of the riskiness of misconduct as a potential solution for overcoming underperformance.

This research suggests that when firms have strong internal legal capacity, managers will be more likely to respond to performance strain with misconduct. When a firm's internal legal capacity is high, managers may feel less individual responsibility for legal risk, instead viewing it as the responsibility of the organization's legal department. Moreover, strong internal legal capacity may also embolden legal departments to take on greater legal risk in order to maximize financial returns. Hence, I expect that performance strain will be more likely to yield misconduct when the firm has strong internal legal capacity:

Hypothesis 2 (H2): The positive relationship between performance strain and the risk of misconduct is stronger when the organization has strong internal legal capacity (a powerful Chief Legal Officer).

The external environment is also an important factor that shapes how managers perceive the riskiness of particular actions. When performance strain triggers problemistic search, managers formulate strategies by interpreting a match between internal firm capabilities and the external environment (Eggers and Kaplan 2013). Interpretations of the environment powerfully channel managerial attention (Ocasio 1997), with firms adapting their strategies based on their perceptions of external threats (Barr et al. 1992; Tripsas and Gavetti 2000). Threat perceptions can affect the strategy formulation process with managers exhibiting greater responsiveness to threats in the environment as compared to opportunities (Dutton and Jackson 1987; Gilbert 2006). Hence

external legal risk—managerial perceptions of the probability that misconduct will result in enforcement action—is likely to affect decisions to resort to misconduct in response to performance strain.

One possibility is that managers could view higher external legal risk in their industry as a signal that misconduct is more normatively acceptable, thus increasing their willingness to engage in misconduct as a solution to underperformance. Case studies of individual organizations illustrate how norms within organizations can encourage deviant behavior among employees (Vaughn 1996; Soltes 2016). However, it is less clear whether this normalization process might occur at the industry level. Deviance might be more easily normalized within particular organizations, rather than across industries, as employees take direction from company leaders with varying ethical commitments.

There is more evidence to suggest that firms gauge the riskiness of engaging in contentious practices such as misconduct, by learning from industry peers' missteps. Firms are likely to perceive contentious practices as less threatening when more industry peers successfully adopt it (Ahmadjian and Robinson 2001; Briscoe and Safford 2008), but they also learn to avoid risky practices that have lost legitimacy within their industry (Maguire and Hardy 2009; Chu and Davis 2016). This social comparison process is particularly salient when firms fail to achieve aspirations (Baum and Dahlin 2007), with managers paying more attention to peer firms when searching for solutions. Once deviant behaviors become scrutinized and gain greater attention from regulators, firms are likely to abandon such behaviors for fear of getting caught (Short and Toffel 2010; Mohliver 2018).

In particular, as more of a firms' industry peers experience litigation, the perceived level of external legal risk should be higher, with managers perceiving misconduct as a riskier strategy

for improving poor performance. This notion is consistent with findings that managers tend to perceive deviant activities as risky when the firm operates in an environment with a strong legal infrastructure for enforcement (Xu, Zhou and Du forthcoming), and when industry peers are caught and punished (Yiu, Xu and Wan 2014). Thus, I expect that managers will be less likely to resort to misconduct when faced with performance strain if the external legal risk is higher:

Hypothesis 3 (H3): The positive relationship between performance strain and the risk of misconduct is weaker when the organization has higher external legal risk (industry litigation %).

Proximate and Distal Misconduct

Organizational research suggests two broad categories of misconduct—one that is triggered by managerial efforts to reap short-term gains and another which is farther removed from managerial discretion and arises from negligence or accidents (Vaughan 1999; Greve, Palmer and Pozner 2010). I refer to the former as “proximate misconduct” and the latter as “distal misconduct” in order to emphasize distance from managerial decision making.

Extant studies suggest that managers experiencing performance pressure may be most likely to engage in economic and labor misconduct to reap proximate gains. First, much of the literature focuses on economic misconduct, examining managers’ efforts to artificially inflate their numbers (O’Connor et al 2006; Harris and Bromiley 2007; Steffensmeier et al., 2013; Yiu, Xu and Wan 2014; Krishnan and Kozhikode 2015). Scholars have noted the rise of financial fraud in response to greater external scrutiny from boards and analysts, suggesting a tendency for managers to engage in economic forms of misconduct in response to performance strain (Dobbin and Zorn

2005; Prechel and Morris 2010). These studies suggest that the current shareholder value era promotes organizational misconduct in the form of “earnings management” as managers focus their attention on meeting short-term targets rather than managing long-term performance. Managers go to great lengths to quickly respond to performance shortfalls, with efforts at earnings management rapidly escalating from early product release dates and last-minute sales incentives, to reserve manipulation and accounting malpractice (Soltes 2016). This research suggests that economic misconduct will be a likely response to managers experiencing performance strain.

Second, studies examining the use of labor cost-cutting as a short-term strategy suggest that performance strain may lead to labor misconduct. This is because management ideology in the United States since the 1980’s has focused on aggressive cost reduction through a “lean and mean” strategy aimed at reducing labor costs (Davis 2009; Goldstein 2012). Managers seeking to cut costs often turn to downsizing (Jung 2016), shifting from permanent employment to contingent labor (Bidwell et al. 2013), and finding creative ways to reduce employee benefits (Cobb 2015). While many of these practices are legal, managers can push the boundaries of labor laws by wrongfully denying workers their wages and benefits, violating union agreements, or permitting human rights abuses in their supply chains (Eaton and Kriesky 2001; Kim and Davis 2016; Earle, Spicer and Peter 2010). Labor cost-cutting and declining labor conditions are more likely to occur under conditions of high external monitoring (Jung 2015; 2016) and piece-rate incentive systems (Bird, Short and Toffel 2019), which suggests a potential relationship between short term performance pressure and labor misconduct. Given this tendency for managers to focus on labor efficiencies when searching for productivity solutions, I expect that underperformance will be likely to manifest in labor misconduct.

By contrast, studies focusing on product and environmental misconduct suggest that these represent distal forms of misconduct occurring as a result of carelessness or complexity, rather than purposive action. This is consistent with Perrow's (1984) theory of "normal accidents", which proposes that when systems contain elements that are highly interrelated, failures can arise that are unforeseeable or unobservable, cascading into large-scale accidents. This combination of tight coupling and complexity allows small failures to rapidly spread throughout the system, resulting in accidental misconduct that can have major consequences for the organization and the community in which it operates. The Exxon Valdez Oil Spill is an example of such distal environmental misconduct, with 10.8 million gallons of crude oil spilled into the Gulf of Alaska after the Exxon Valdez supertanker collided with the Bligh Reef. This incident of environmental misconduct has been attributed to fatigue, insufficient supervision, and overreliance on auto-navigation (Sylves and Comfort 2012). The rapid failure of the system, along with lack of emergency preparedness led to catastrophic environmental damage and over \$5 billion of legal judgements against the company (Hoffman and Ocasio 2001). Consistent with this example, studies examining environmental misconduct tend to characterize the cause as accidental (Russo and Harrison 2005; Diestre and Rajagopalan 2014) with pollution related to the size, extent of inspection, and quality standards of production facilities (Grant, Bergesen and Jones 2002; Delmas and Toffel 2008; Short and Toffel 2010).

Product misconduct similarly tends to be described in terms of negligence rather than purposive action to realize short-term gains. Product safety issues are often attributed to risks inherent in complex production systems, with significant learning from prior mistakes (Haunschild and Rhee 2004; Madsen and Desai 2010; Thirumalai and Sinha 2011). This is why external stakeholders appear to attribute product defects to manufacturing problems, responding positively

to promises to improve production processes (Zavyalova et al 2012). This is consistent with Vaughn's (1996) analysis of the faulty O-rings in the Challenger space shuttle, which finds that when employees depart from established procedures without consequence, they may feel comfortable foregoing production safeguards increasing the safety risks over time. For both product misconduct and environmental misconduct, negligence can eventually lead to misconduct events when risky behaviors persist over a long enough time horizon.

Taken together, this research suggests that economic and labor misconduct may represent proximate forms of misconduct, arising from managerial discretion aimed at reaping short-term gains. By contrast, product and environmental misconduct may represent distal forms of misconduct arising from long-term carelessness or complexity. When underperformance triggers a problemistic search for solutions, I predict that managers will be more likely to engage in proximate misconduct which offers a more expedient means to improve performance:

Hypothesis 4 (H4): Performance strain will be more strongly related to proximate misconduct (economic and labor misconduct) as compared to distal misconduct (environmental and product misconduct).

DATA AND METHODS

To test these hypotheses, I constructed a sample consisting of all publicly traded firms that ever appeared in the S&P1500 index between 2000-2017. After removing firm-year observations with missing values or no variation on the outcome variable, the final analytical sample consisted of 1,381 firms and 16,645 firm-year observations. Missing data was less than 10% for most variables except for internal legal capacity (13.7%) and absorbed slack (16.8%). However,

alternative multiple imputation models produce substantively similar results, mitigating against potential bias arising from data missingness. Descriptive statistics and correlations are presented in Table 1.

Outcome Variable: Organizational Misconduct

Organizational Misconduct. I measure *misconduct* using an indicator variable that takes a value of 1 if a firm experienced a new litigation claim in a given year, and 0 otherwise². Operationalizing misconduct in terms of lawsuits is consistent with an institutional approach to misconduct since it uses the law as a clear standard to delineate which actions are ethical versus unethical (Palmer 2017). An important benefit of using legal claims is that it provides a comprehensive account of a range of misconduct activities and is not subject to biases arising from selective media reporting, as in studies which measure misconduct using events reported in newspapers. Although a downside is that some claims may be frivolous or unsubstantiated, this should introduce measurement error that would bias results towards zero. Data on legal claims were obtained from AuditAnalytics Legal database containing all material federal civil litigation cases that must be disclosed as part of firms' annual SEC filings. Since material claims are at least 10% of assets, the variable captures serious misconduct events with considerable stakeholder impact. The full sample mean—before conditional logit models drop firms with no variation on the dependent variable—is 0.25, indicating that a quarter of firm-year observations experienced misconduct.

I also included a set of indicator variables for whether the firm experienced a *proximate misconduct* event or a *distal misconduct* event. Two independent raters coded misconduct events

² An indicator variable is more appropriate than a count variable since a single misconduct event can trigger multiple lawsuits or a single class action lawsuit.

into the categories of economic, labor, product, environment or other misconduct using standards outlined by the Global Reporting Initiative (see Appendix 2 for examples provided to coders). The economic and labor categories were then consolidated into proximate misconduct while the product and environment categories were consolidated into distal misconduct. Coding required legal knowledge to interpret nature of suit (NOS) codes which use legal terms and references to statutes. Therefore, I hired two third-year law school students from a large university located in the northeastern United States to code misconduct events. The intercoder reliability between the two independent coders' classifications was strong as indicated by a Krippendorff's alpha of 0.76 (Landis and Koch 1977). The coders resolved differences in classifications through discussion until consensus was reached.

Explanatory and Moderating Variables

Performance strain. I used *performance below aspirations* to measure performance strain (Greve 2003). To calculate this variable, I subtracted each firm's return on assets (ROA) from their aspirational ROA and took the absolute value of this difference. Performance below aspirations was set to 0 for firms that met or exceeded their aspirational ROA. Aspirational ROA was calculated with a social aspirations measure, by taking the median ROA for all firms in the same two-digit SIC industry as the focal firm. I standardize this variable to facilitate interpretation of coefficients.

Internal legal capacity. I measured internal legal capacity using an indicator variable taking the value of 1 if the firm has a *powerful Chief Legal Officer*, defined as being among the company's top five highest paid executives. The pay of the firm's top legal role should reflect the overall power of the firm's legal department and its influence over the formulation of

organizational strategies. While the legal department's headcount and operating budget would be the ideal measures, this information is unfortunately not publicly available. However, executives' relative pay is a strong measure of their power in the organization as well as the relative power of the department they lead (Finkelstein 1992; Pitcher and Smith 2001). We would expect the highest paid executives to be more powerful than lower-paid executives, with greater ability to marshal resources to their department. This is consistent with a view of executives competing for control over leadership of the firm and advocating for the significance of their department in shaping the firm's strategy (Fligstein 1993; Dobbin 2009). I obtained data on executive pay from Execucomp.

External legal risk. I measured external legal risk using the *industry litigation (%)* rate for each firm. I use industry peers as social referents, since prior research has shown that managers pay careful attention to the strategies and outcomes of other comparable organizations operating in the same field (Wooten and Hoffman 2017). Hence, managers' perceptions of external legal risk should increase as more of their industry peers experience publicly disclosed litigation. To create this measure, I used each firm's 2-digit SIC code to define their industry and took the percentage of firms in the industry that experienced a civil litigation claim in a given year.

Control Variables

To account for unobserved factors related to misconduct, I included firm and year fixed-effects. I also included a set of time-varying controls for firm characteristics that could affect their propensity to engage in misconduct. This included a set of controls for governance structures, such as the *percent of outside directors* on the board, the *percent of shares owned by management*, and the *percent of institutional blockholder ownership*. I also controlled for *board size* using a count of the number of individuals serving on the board of directors. Finally, I controlled for *CEO-*

chair duality using an indicator variable which takes a value of 1 if the CEO is also the chair of the board. Governance data came from the GMI corporate governance dataset, with missing observations manually collected from SEC DEF14A filings in EDGAR. Data on institutional ownership came from Thomson Institutional Ownership database.

I controlled for *performance above aspirations* by taking the positive difference between each firm's return on assets (ROA) from their aspirational ROA. This variable was set to 0 if for firms performing below their aspirational ROA. I also included controls for *firm age* (logged), *assets* (logged), and firm status using an indicator variable taking a value of 1 if the organization was named as *Fortune's Most Admired Company* in a given year. This variable was hand-coded from archives of Fortune Magazine's annual industry rankings. I additionally controlled for three forms of slack since organizations with greater slack resources are thought to be less likely to resort to misconduct to achieve their goals (Cyert and March 1963). I measured *absorbed slack* using the ratio of selling, general and administrative expenses to sales, *potential slack* using the debt to equity ratio, and *unabsorbed slack* using the ratio of cash and marketable securities to liabilities. Financial data were obtained from Compustat. Finally, I account for industry competition by controlling for the median *industry ROA*, the count of *industry competitors*, and a herfindahl index of *industry concentration*.

Fixed Effects Models

To mitigate potential endogeneity issues, I use models with firm fixed-effects which control for the potential confounding effects of unobserved, time-invariant factors. While fixed-effects models cannot account for unobserved factors that vary over time, they do capture a considerable amount of stable firm heterogeneity which poses an endogeneity threat. For example,

this controls for unobserved stable firm factors related to both underperformance and misconduct, such as work context, industry, geography, or organizational culture. Research on organizational misconduct, and criminology more broadly, encounters the problem that the misconduct we observe reflects the occurrence of misconduct but also the risk of getting caught. My approach to this issue is to control for this risk of detection, using the firm fixed-effects which account for time-stable firm-specific evasion capabilities which we do not directly observe, and the year fixed-effects which help account for risk detection by controlling for annual fluctuations in resources that regulators and courts receive. These firm and year fixed-effects are in addition to the time-varying controls for internal legal capacity and external legal risk, which capture some of the risk of detection. I also lag the independent variables by one year in all models to allow sufficient time for the occurrence and detection of misconduct.

To test hypotheses 1-3, I use conditional (fixed-effects) logit models since the data has a longitudinal firm-year structure with a repeatable binary dependent variable (Allison 2009). The repeatability of misconduct events makes this approach preferable to event history models since it allows firms to remain in the risk set following a misconduct event and does not assume that firms' risk of misconduct resets after an event. I cluster the standard errors at the firm level to account for repeated measurements for each firm over time.

Since hypothesis 4 focuses on the relative effects of performance strain across categories of misconduct, I transform the firm-year dataset into a firm-year-risk dataset and use a conditional (fixed-effects) logit model. This approach is appropriate for studying repeatable events which can occur simultaneously. For example, firms are at risk of experiencing more than one type of misconduct in the same year, and firms can also experience misconduct in multiple years. I transformed the firm-year dataset (n=16,645) into a firm-year-risk dataset (n=49,935) where each

firm-year observation was duplicated three times and assigned a misconduct risk category indicator (proximate misconduct, distal misconduct, other misconduct). The variable for misconduct thus took a value of 1 for firm-year-risk observations corresponding to the particular misconduct risk category. For example, if a firm engaged in proximate misconduct in a given year and no other types of misconduct, only the firm-year-risk observation corresponding to the proximate risk category would receive a 1 and the other two firm-year-risk observations corresponding to the other misconduct and distal misconduct risk categories would receive a 0. I obtain similar results by using the original firm-year data structure and simply running conditional (fixed-effects) logit models separately predicting each type of misconduct (see Appendix 1). However, the firm-year-risk approach is preferable since it uses a consistent analytical sample across models and directly estimates the relative effect of performance strain between misconduct categories.

Robustness Checks

I include several robustness checks to ensure that the findings are not sensitive to model specification or measurement choices. First, I include random effects models in Appendix 3 and 4 which include the full sample of firms and do not drop firms which have no variation on the dependent variable (e.g. firms that never experienced misconduct or always experienced misconduct). This helps address concerns about bias arising from the exclusion of a subset of firms from the analytical sample. Second, I include models controlling for prior misconduct using both a dummy variable and a count variable (Appendix 5 and 6). This helps rule out the possibility that having a powerful Chief Legal Officer might be confounded with an unobserved criminogenic feature of the firm. Third, models using historical performance yield similar coefficients to social

performance in terms of size and direction (Appendix 7 and 8). However, these results become borderline significant ($p < 0.10$) or non-significant once fixed-effects are included. This may indicate that managers pay more attention to their social performance compared to industry peers, rather than their own historical performance. I also include models using simple net income as an alternative performance measure and find the same pattern of results (Appendix 9 and 10). Finally, I estimated models with different lags and found evidence of short-term effects (0-1 year lags), but not long-term effects (2-5 year lags). Hence, I present and discuss the one-year lag models.

RESULTS

Table 2 presents estimates from a conditional (fixed-effects) logit model predicting misconduct in the following year ($t+1$). Model 1 tests the effect of performance strain on the odds of misconduct (H1). To simplify interpretation, coefficients are expressed as odds ratios and performance below expectations is expressed in standardized units. The results strongly support H1, indicating a statistically significant positive effect of performance strain on the odds of misconduct. The magnitude of the effect is also substantively important: a one standard deviation increase in performance below aspirations increases the odds of misconduct by roughly 30%, controlling for a battery of time-varying factors, as well as firm and year fixed-effects which control for unobserved time-invariant factors.

Model 2 examines whether the relationship between performance strain and misconduct is moderated by internal legal capacity (H2) and external legal risk (H3). As indicated by the size and significance of the coefficient for the interaction term, the results provide support for these hypotheses. Consistent with organizational licensing arguments, firms are more likely to respond to performance strain by engaging in misconduct when they have strong legal capacity, as proxied

by a powerful Chief Legal Officer. However, as industry litigation (%) increases, firms are less likely to resort to misconduct when experiencing performance strain since there is stronger perceived external legal risk. It is worth noting that while this interaction effect is negative, the main effect of industry litigation (%) is positive. It may be the case that the main effect is capturing enforcement efforts (e.g. as more firms experience litigation, likely due to heightened enforcement efforts, the focal firm will also experience more litigation). By contrast, the interaction effect is capturing the social comparison effect described in my hypothesis 3—when firms are underperforming, they look to their industry peers to gauge the riskiness of misconduct as a solution to improve performance. This is consistent with the idea that social comparisons occur when firms are looking for solutions for underperformance. Figure 1 presents the results of these two interaction effects graphically with 95% confidence intervals. The relationship between performance strain and misconduct appears to be intensified when firms have strong internal legal capacity, but the relationship is weakened as external legal risk increases.

I now consider H4 which predicts that performance strain will have a stronger effect on proximate rather than distal misconduct. Table 3 presents results using a firm-year-risk data structure with conditional (fixed-effects) logit models. The interaction terms test the relative effects of performance strain on different types of misconduct. Model 1 shows that performance below aspirations has a significant positive effect on proximate misconduct (economic or labor misconduct) as compared to the reference category of distal misconduct (environmental or product misconduct). In model 2, performance strain also has a stronger effect for the ‘other misconduct’ category, as compared to distal misconduct. The results do not substantively change in model 3, which includes both interaction terms. Model 3 indicates that a one standard deviation increase in

performance strain increases the odds of proximate misconduct by 63% more than it does for distal misconduct. Thus, the results provide support for H4.

I replicate the findings about the relative effects of performance strain (H4) using conditional fixed-effects logit models with a simpler firm-year structure (Appendix 1), predicting each type of misconduct in separate models. Consistent with the analysis in Table 3, these additional models show that performance strain has stronger effects on proximate forms of misconduct. The results are robust to using broad categories (proximate/distal) or more specific categories (economic/labor/environment/product/other).

DISCUSSION

The present study examined strain theory as an explanation for why firms engage in misconduct during some periods but not others. Using a longitudinal within-firm analysis of legal claims filed against S&P1500 firms from 2000-2017, I found that performance strain—the gap between an aspirations and actual performance—is positively related to misconduct. However, this relationship between performance strain and misconduct is positively moderated by internal legal capacity and negatively moderated by external legal risk. When experiencing performance strain, managers appear more likely to resort to misconduct when internal legal capacity is strong, but they are less likely to engage in misconduct as external legal risk increases. Moreover, I find that underperformance is more likely to manifest in proximate forms of misconduct (economic and labor misconduct) which are subject to short-term managerial discretion, as compared to distal forms of misconduct (environment and product misconduct) which are thought to arise from carelessness or complexity. The findings support the strain theory of organizational misconduct, but also extend the theory to explain how managers make sense of their internal and external

environments as they decide whether to engage in particular kinds of misconduct to improve short-term performance.

Theoretical Contributions

The study provides several important theoretical implications. First, I contribute stronger empirical evidence in support of the strain theory of organizational misconduct. Although strain theory has become a highly cited explanation for misconduct (Greve, Palmer and Pozner 2010; Palmer 2017), its popularity largely reflects the theory's plausibility and strong grounding in classical sociological theories of deviance (Merton 1938) and The Behavioral Theory of the Firm (Cyert and March 1963; March and Simon 1958). Despite its high citation rate, few studies have examined the theory at the firm-level (c.f. Xu, Zhou, and Du forthcoming) and others have argued that overconfidence rather than strain leads to misconduct (Mishina et al 2010). I offer stronger evidence in support of strain theory, innovating on extant studies in two important ways—using a within-firm fixed-effects analysis that helps account for unobserved heterogeneity, and testing the theory using a broad sample of US firms. Whereas prior research indicates that negative performance feedback can spur risky organizational change (Bromiley, 1991; Greve, 1998; Baum et al 2005), the present study identifies illicit behaviors as an important manifestation of managerial solution seeking. This provides stronger empirical support for the strain theory of organizational misconduct while also improving the theory's generalizability across industries, misconduct types and to the US context.

Second, I extend classical accounts of strain theory by identifying conditions where performance strain is most likely to lead to misconduct. Qualitative studies have highlighted the importance of considering organizational conditions that intensify performance pressures (Sims

and Brinkmann 2003; Vuori and Huy 2015; Espeland and Sauder 2016), suggesting that performance strain may not be experienced uniformly inside organizations. I help address this shortcoming by identifying how both internal legal capacity and external legal risk affect whether managers will respond to performance strain by engaging in morally questionable activities. The study indicates that managers' perceptions of the riskiness of illegal actions are powerfully shaped by both their responsibility for risk management and the enforcement risk they face. These findings strengthen strain theory by specifying boundary conditions inside and outside the firm that can affect the risk of misconduct.

This insight has implications for performance feedback theory (Greve 2003), highlighting how managerial perceptions affect the problemistic search process. Extant studies focus on firms' selection of social reference groups (Labianca et al. 2009; Kacperczyk, Beckman and Moliterno 2015) or aspiration points (Boyle and Shapira 2012), but tend to assume heterogeneity in how managers search for solutions when performance falls below aspiration levels. The present study indicates that performance feedback is likely to produce different behaviors, depending on managerial perceptions of capabilities and risks. While extant studies have shown that performance feedback matters for risk-taking more generally (Lim and McCann, 2014; Dai et al, 2018; Lyócsa et al., 2019), the study extends these insights into the realm of organizational misconduct. Consistent with theoretical arguments about the strategy formulation process (Eggers and Kaplan 2013), my findings suggest that internal firm capabilities and risks in the external environment powerfully shape both managers' repertoire of strategies as well as their willingness to pursue riskier options.

The findings also add to growing evidence of 'organizational licensing', offering a new empirical case of the unintended consequences of formalization. Scholars have begun to show that

delegating responsibility for risk can have unintended consequences by reducing individual responsibility for risky behaviors and by empowering professional projects aimed at expanding jurisdiction by ‘managing’ rather than reducing risk (Castilla and Benard 2010; Pernell, Jung and Dobbin 2017). Rather than curbing managers’ temptation to resort to illegal activities in times of underperformance, I find that powerful Chief Legal Officers increase the risk of illegal activities. Although organization theories of accountability have traditionally emphasized the importance of formal roles and clear assignment of responsibility (Tetlock 1985), the present study contributes additional evidence that this approach can backfire when it comes to reducing risky behaviors.

Finally, the research provides greater clarity about the types of misconduct that are most likely to manifest when managers experience performance strain. Prior studies of misconduct have focused on single types of misconduct events such as product recalls (Rhee and Haunschild 2006; Zavyalova et al. 2012), pollution (King and Lenox 2000; Short and Toffel 2010), wage arrears (Earle, Spicer and Peter 2010), or fraud (O'Connor et al. 2006; Prechel and Morris 2010; Yiu, Xu and Wan 2014), but have not compared effects across misconduct categories. I address this shortcoming by showing that performance strain is more likely to manifest in economic and labor misconduct as compared to product and environmental misconduct. This is consistent with theoretical distinctions between misconduct events that are caused by attempts to realize short-term gains versus misconduct events caused by long-term negligence (Greve, Palmer and Pozner 2010, p.70). The study builds on strain theory by specifying the forms of misconduct that are most likely to arise, and suggests that future research pay more attention to these categorical differences.

This insight has implications for understanding deviant organizational cultures. Much of the qualitative research on misconduct explores how deviance can become normalized in organizations, with a shared understanding that financial performance should be prioritized above

ethical considerations (Vaughan 1996; Aven 2015; den Nieuwenboer, Cunha, and Treviño 2017). My findings suggest that in such organizations, economic and labor misconduct may be more likely to arise, as employees at all levels look for areas of discretion that could improve financial performance. Future research may draw on rich qualitative data to better understand managers' decision processes as they choose among the various solutions to underperformance and how normalized deviance may alter their perceptions of the riskiness of these choices.

Strain theory remains one of the most influential and highly cited theories for explaining organizational misconduct. Yet, empirical evidence has been surprisingly scarce, with even less known about the conditions under which performance strain encourages misconduct. My findings advance research on organizational misconduct by providing stronger support for the theory, identifying contextual factors that make managers more likely to resort to misconduct in order to overcome performance shortfalls, and specifying the forms of misconduct that present the most attractive solutions to managers searching for short-term gains. The study extends the classical strain theory of organizational misconduct, improving our understanding of when short-term performance pressures can ripple through the organization, causing particular kinds of harm to stakeholders in the local communities where the firm operates.

Table 1: Descriptive Statistics and Correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Misconduct	0.326	0.469	1.0										
2. Proximate Misconduct	0.220	0.414	0.8	1.0									
3. Distal Misconduct	0.070	0.255	0.4	0.1	1.0								
4. Other Misconduct	0.060	0.238	0.4	-0.1	-0.1	1.0							
5. Performance Below Aspirations	0.038	0.127	0.0	0.0	0.0	0.0	1.0						
6. Performance Above Aspirations	0.027	0.051	0.0	0.0	0.0	0.0	0.0	1.0					
7. Powerful Chief Legal Officer	0.371	0.483	0.0	0.0	0.0	0.0	0.0	0.0	1.0				
8. Industry Litigation (%)	26.061	12.238	0.2	0.1	0.1	0.1	0.0	0.0	0.0	1.0			
9. CEO-Chair Duality	0.639	0.480	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0		
10. Outside Directors (%)	71.860	16.114	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	-0.1	1.0	
11. Shared Held by Management (%)	14.116	19.958	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-0.3	1.0
12. Board Size	9.067	2.396	0.2	0.1	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.1	-0.1
13. Institutional Blockholder Ownership (%)	20.893	15.058	-0.1	0.0	-0.1	0.0	0.0	0.0	0.1	0.0	-0.1	0.1	-0.1
14. Fortune's Most Admired Company	0.155	0.362	0.2	0.2	0.2	0.1	0.0	0.0	-0.1	0.1	0.0	0.1	-0.1
15. Firm Age (Log)	3.139	0.676	0.1	0.1	0.1	0.1	-0.1	0.0	0.1	0.0	-0.1	0.2	-0.2
16. Assets (Log)	7.621	1.557	0.3	0.2	0.2	0.1	-0.2	-0.1	0.0	0.1	0.0	0.2	-0.3
17. Absorbed Slack	0.262	0.418	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18. Potential Slack	0.832	41.102	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19. Unabsorbed Slack	0.590	1.285	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.1
20. Industry ROA	-0.008	0.080	0.0	0.0	-0.1	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0
21. Industry Competitors	394.338	424.979	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	-0.3	0.0	0.0	-0.1
22. Industry Concentration	0.072	0.073	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
	12	13	14	15	16	17	18	19	20	21	22		
12. Board Size	1.0												
13. Institutional Blockholder Ownership (%)	-0.2	1.0											
14. Fortune's Most Admired Company	0.3	-0.1	1.0										
15. Firm Age (Log)	0.3	0.1	0.2	1.0									
16. Assets (Log)	0.5	-0.1	0.4	0.4	1.0								
17. Absorbed Slack	0.0	0.0	0.0	0.0	0.0	1.0							
18. Potential Slack	0.0	0.0	0.0	0.0	0.0	0.0	1.0						
19. Unabsorbed Slack	-0.2	0.0	0.0	-0.1	-0.1	0.2	0.0	1.0					
20. Industry ROA	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	1.0				
21. Industry Competitors	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.3	1.0			
22. Industry Concentration	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.2	-0.4	1.0		

Table 2: Conditional (Fixed-Effects) Logit Models Predicting Misconduct

	M1	M2	M3	M4
Performance Below Aspirations (H1)	1.295*** (0.084)	1.168* (0.079)	2.187*** (0.395)	1.926*** (0.358)
Interaction Effects				
Powerful Chief Legal Officer (H2)		1.309* (0.148)		1.264* (0.133)
X Performance Below Aspirations				
Industry Litigation (%) (H3)			0.980** (0.006)	0.982** (0.006)
X Performance Below Aspirations				
Control Variables				
Performance Above Aspirations	1.060 (0.168)	1.062 (0.167)	1.062 (0.170)	1.065 (0.170)
Powerful Chief Legal Officer	1.031 (0.057)	1.035 (0.057)	1.032 (0.057)	1.036 (0.057)
Industry Litigation (%)	1.005* (0.002)	1.005* (0.002)	1.004 (0.002)	1.004 (0.002)
CEO-Chair Duality	0.966 (0.046)	0.967 (0.046)	0.967 (0.046)	0.968 (0.046)
Outside Directors (%)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)
Shared Held by Management (%)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)
Board Size	1.002 (0.015)	1.001 (0.015)	1.001 (0.015)	1.001 (0.015)
Institutional Blockholder Ownership (%)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)
Fortune's Most Admired Company	0.925 (0.074)	0.924 (0.073)	0.924 (0.073)	0.923 (0.073)
Firm Age (Log)	1.810** (0.342)	1.803** (0.339)	1.796** (0.339)	1.788** (0.337)
Assets (Log)	1.615*** (0.099)	1.628*** (0.100)	1.625*** (0.100)	1.639*** (0.101)
Absorbed Slack	0.848 (0.157)	0.856 (0.145)	0.855 (0.145)	0.859 (0.143)
Potential Slack	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)
Unabsorbed Slack	0.986 (0.025)	0.987 (0.025)	0.986 (0.025)	0.987 (0.025)
Industry ROA	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)
Industry Competitors	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)
Industry Concentration	3.626 (3.466)	3.706 (3.543)	3.660 (3.505)	3.727 (3.568)
Firm Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
Observations	16,645	16,645	16,645	16,645

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Figure 1: The Moderating Effect of Internal Legal Capacity and External Legal Risk

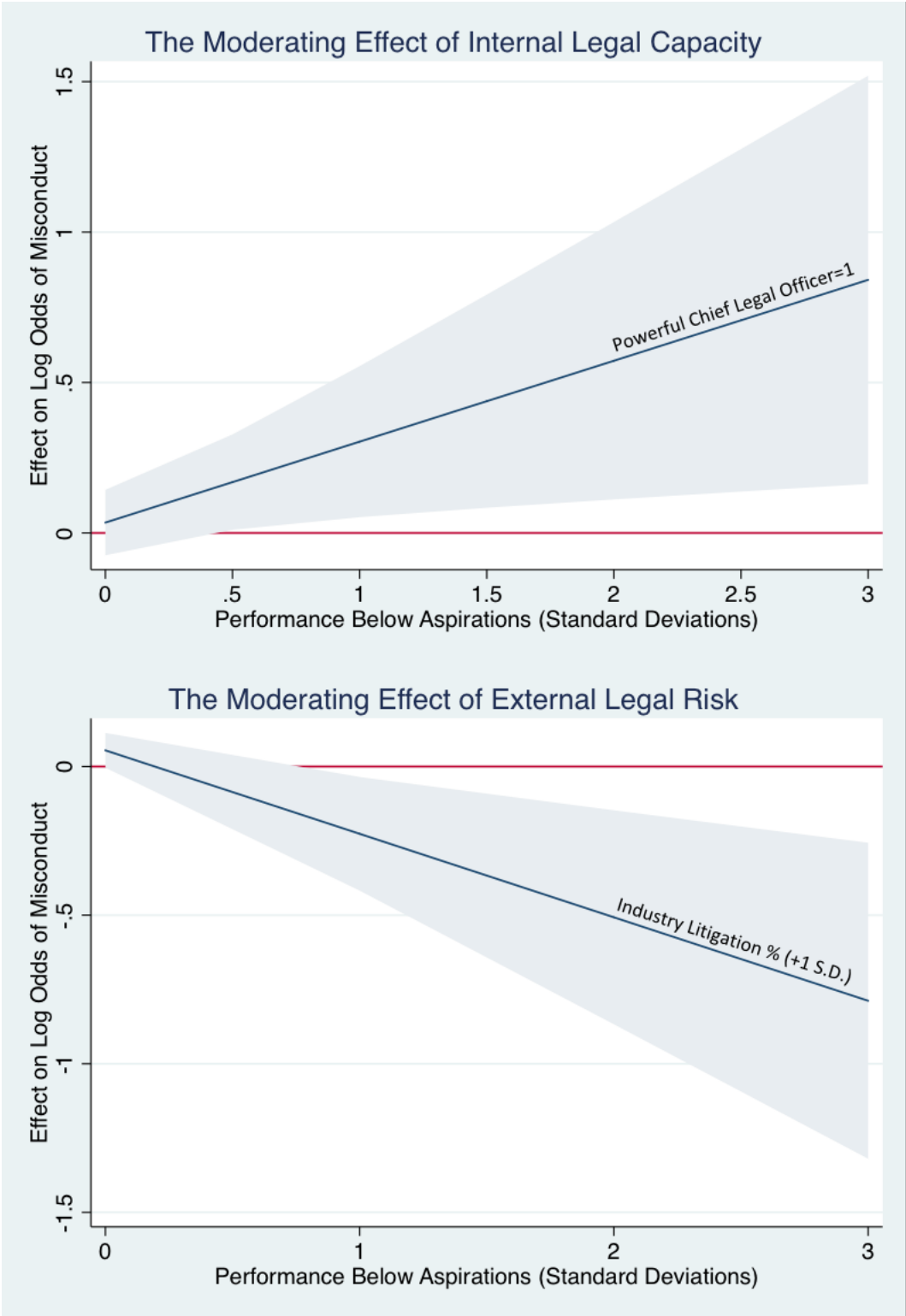


Table 3: Conditional (Fixed-Effects) Logit Models Predicting Misconduct By Risk Category

	M1	M2	M3
Interaction Terms			
(REF= Distal Misconduct Risk)			
Proximate Misconduct Risk (H4)	1.347**		1.632***
X Performance Below Aspirations	(0.144)		(0.236)
Other Misconduct Risk		0.933	1.371*
X Performance Below Aspirations		(0.091)	(0.219)
Lower Order Terms			
Performance Below Aspirations	0.984	1.190***	0.810
	(0.076)	(0.051)	(0.110)
Proximate Misconduct Risk	4.173***	4.134***	4.215***
	(0.256)	(0.255)	(0.260)
Other Misconduct Risk	0.852*	0.851*	0.865*
	(0.056)	(0.056)	(0.057)
Control Variables			
Performance Above Aspirations	0.950	0.949	0.944
	(0.122)	(0.121)	(0.121)
Powerful Chief Legal Officer	0.992	0.992	0.992
	(0.040)	(0.040)	(0.040)
Industry Litigation (%)	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)
CEO-Chair Duality	0.959	0.958	0.959
	(0.034)	(0.034)	(0.034)
Outside Directors (%)	1.002	1.002	1.002
	(0.001)	(0.001)	(0.001)
Shared Held by Management (%)	1.001	1.001	1.001
	(0.001)	(0.001)	(0.001)
Board Size	0.995	0.995	0.995
	(0.011)	(0.011)	(0.011)
Institutional Blockholder Ownership (%)	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)
Fortune's Most Admired Company	0.979	0.980	0.978
	(0.051)	(0.051)	(0.051)
Firm Age (Log)	1.547**	1.550**	1.547**
	(0.227)	(0.227)	(0.227)
Assets (Log)	1.440***	1.435***	1.438***
	(0.065)	(0.065)	(0.065)
Absorbed Slack	0.876	0.887	0.879
	(0.120)	(0.113)	(0.117)
Potential Slack	1.000	1.000	1.000
	(0.001)	(0.001)	(0.001)
Unabsorbed Slack	0.992	0.992	0.992
	(0.022)	(0.022)	(0.022)
Industry ROA	1.003	1.003	1.003
	(0.002)	(0.002)	(0.002)
Industry Competitors	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)
Industry Concentration	1.763	1.757	1.765
	(1.330)	(1.326)	(1.332)
Firm Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
Observations	49,935	49,935	49,935

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 1: Conditional (Fixed-Effects) Logit Models Predicting Types of Misconduct

	Broad Categories				Specific Categories				
	Any Misconduct	Proximate	Distal	Other	Economic	Labor	Product	Environment	Other
Performance Below Aspirations	1.295*** (0.084)	1.231** (0.086)	1.070 (0.178)	1.331* (0.153)	1.156* (0.071)	1.310** (0.130)	0.967 (0.184)	1.274 (0.477)	1.331* (0.153)
Control Variables									
Performance Above Aspirations	1.060 (0.168)	1.065 (0.173)	0.440 (0.218)	1.180 (0.392)	1.139 (0.195)	0.788 (0.356)	0.451 (0.259)	0.375 (0.280)	1.180 (0.392)
Powerful Chief Legal Officer	1.031 (0.057)	1.093 (0.069)	0.908 (0.088)	0.867 (0.084)	1.119 (0.076)	0.958 (0.106)	0.854 (0.101)	1.012 (0.147)	0.867 (0.084)
Industry Litigation (%)	1.005* (0.002)	1.008*** (0.002)	1.003 (0.004)	0.995 (0.004)	1.010*** (0.003)	1.003 (0.004)	1.009* (0.004)	0.997 (0.006)	0.995 (0.004)
CEO-Chair Duality	0.966 (0.046)	0.925 (0.052)	0.974 (0.090)	1.089 (0.100)	0.972 (0.060)	0.818* (0.084)	0.988 (0.115)	1.019 (0.144)	1.089 (0.100)
Outside Directors (%)	1.002 (0.002)	0.998 (0.002)	1.015*** (0.004)	1.002 (0.003)	0.998 (0.002)	1.002 (0.004)	1.013** (0.005)	1.015* (0.006)	1.002 (0.003)
Shared Held by Management (%)	1.000 (0.002)	1.000 (0.002)	1.000 (0.003)	1.003 (0.004)	0.999 (0.003)	1.000 (0.004)	0.998 (0.004)	1.008 (0.005)	1.003 (0.004)
Board Size	1.002 (0.015)	1.006 (0.017)	0.977 (0.024)	0.984 (0.025)	1.003 (0.018)	1.003 (0.027)	0.975 (0.027)	0.985 (0.042)	0.984 (0.025)
Institutional Blockholder Ownership (%)	1.005** (0.002)	1.005* (0.002)	1.009* (0.004)	1.000 (0.003)	1.003 (0.002)	1.008* (0.004)	1.011* (0.004)	1.006 (0.006)	1.000 (0.003)
Fortune's Most Admired Company	0.925 (0.074)	1.056 (0.094)	0.880 (0.105)	0.946 (0.127)	1.010 (0.099)	1.228 (0.163)	0.891 (0.133)	0.929 (0.164)	0.946 (0.127)
Firm Age (Log)	1.810** (0.342)	0.956 (0.201)	2.864** (1.098)	1.876* (0.550)	1.136 (0.264)	0.738 (0.248)	1.550 (0.690)	13.230*** (8.271)	1.876* (0.550)
Assets (Log)	1.615*** (0.099)	1.744*** (0.121)	1.304* (0.145)	1.196 (0.122)	1.791*** (0.127)	1.583*** (0.212)	1.300 (0.175)	1.507* (0.267)	1.196 (0.122)
Absorbed Slack	0.848 (0.157)	0.850 (0.171)	0.518 (0.398)	1.658 (1.257)	0.825 (0.202)	4.257* (2.603)	1.650 (1.484)	0.168 (0.352)	1.658 (1.257)
Potential Slack	1.000 (0.001)	1.000 (0.001)	1.000 (0.002)	1.002 (0.001)	0.999 (0.001)	1.000 (0.000)	1.000 (0.003)	0.998 (0.004)	1.002 (0.001)
Unabsorbed Slack	0.986 (0.025)	0.997 (0.030)	1.112 (0.127)	0.984 (0.074)	1.003 (0.032)	0.933 (0.090)	1.193 (0.214)	0.807 (0.338)	0.984 (0.074)
Industry ROA	1.004 (0.002)	1.002 (0.003)	1.003 (0.004)	1.007* (0.004)	1.000 (0.003)	1.014 (0.007)	1.002 (0.004)	1.003 (0.006)	1.007* (0.004)
Industry Competitors	1.000 (0.000)	1.000 (0.000)	1.000 (0.001)	1.000 (0.001)	1.000 (0.000)	1.000 (0.001)	0.998* (0.001)	1.002* (0.001)	1.000 (0.001)
Industry Concentration	3.626 (3.466)	1.300 (1.297)	5.739 (12.443)	0.284 (0.482)	1.182 (1.346)	1.640 (2.613)	26.609 (62.303)	0.319 (0.928)	0.284 (0.482)
Firm Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	16,645	14,430	7,267	7,913	13,049	6,911	5,666	3,977	7,913

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 2: Misconduct Category Examples

Misconduct Type	Examples
Economic	reporting of economic performance, market presence, indirect economic impacts, procurement practices
Environmental	energy, water, biodiversity, emissions, effluents and waste
Product	product safety, misleading advertising, violating customer privacy
Labor	unpaid wages, denying employee benefits, violating union agreements, human rights abuses

Appendix 3: Random Effects Logit Models Predicting Misconduct

	M1	M2	M3	M4
Performance Below Aspirations (H1)	1.266*** (0.062)	1.151** (0.052)	2.149*** (0.313)	1.825*** (0.291)
Interaction Effects				
Powerful Chief Legal Officer (H2)		1.371*** (0.117)		1.273** (0.112)
X Performance Below Aspirations			0.981*** (0.005)	0.984** (0.005)
Industry Litigation Risk (H3)				
X Performance Below Aspirations				
Control Variables				
Performance Above Aspirations	1.304* (0.153)	1.320* (0.155)	1.317* (0.155)	1.330* (0.157)
Powerful Chief Legal Officer	1.055 (0.047)	1.061 (0.047)	1.055 (0.047)	1.059 (0.047)
Industry Litigation (%)	1.017*** (0.002)	1.017*** (0.002)	1.016*** (0.002)	1.016*** (0.002)
CEO-Chair Duality	0.955 (0.043)	0.957 (0.043)	0.955 (0.043)	0.956 (0.043)
Outside Directors (%)	1.004* (0.002)	1.004* (0.002)	1.004* (0.002)	1.004* (0.002)
Shared Held by Management (%)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)
Board Size	1.009 (0.011)	1.009 (0.011)	1.008 (0.011)	1.008 (0.011)
Institutional Blockholder Ownership (%)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)
Fortune's Most Admired Company	1.081 (0.074)	1.078 (0.074)	1.080 (0.074)	1.078 (0.074)
Firm Age (Log)	0.902* (0.040)	0.901* (0.040)	0.902* (0.040)	0.901* (0.040)
Assets (Log)	1.751*** (0.041)	1.758*** (0.042)	1.755*** (0.041)	1.759*** (0.042)
Absorbed Slack	0.985 (0.011)	0.984 (0.011)	0.985 (0.011)	0.984 (0.011)
Potential Slack	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)
Unabsorbed Slack	1.077*** (0.021)	1.080*** (0.021)	1.077*** (0.021)	1.079*** (0.021)
Industry ROA	1.003 (0.002)	1.003 (0.002)	1.003 (0.002)	1.003 (0.002)
Industry Competitors	1.000*** (0.000)	1.000*** (0.000)	1.000*** (0.000)	1.000*** (0.000)
Industry Concentration	0.665 (0.289)	0.679 (0.295)	0.677 (0.295)	0.686 (0.299)
Firm Fixed Effects	NO	NO	NO	NO
Year Fixed Effects	YES	YES	YES	YES
Observations	20,433	20,433	20,433	20,433

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 4: Random Effects Logit Models Predicting Misconduct by Risk Category

	M1	M2	M3
Interaction Terms			
(REF= Distal Misconduct Risk)			
Proximate Misconduct Risk (H4)	1.243**		1.470**
X Performance Below Aspirations	(0.096)		(0.185)
Other Misconduct Risk		0.968	1.297*
X Performance Below Aspirations		(0.061)	(0.170)
Lower Order Terms			
Performance Below Aspirations	1.021	1.156***	0.861
	(0.066)	(0.035)	(0.102)
Proximate Misconduct Risk	4.083***	4.052***	4.121***
	(0.147)	(0.145)	(0.151)
Other Misconduct Risk	0.759***	0.758***	0.769***
	(0.034)	(0.034)	(0.035)
Control Variables			
Performance Above Aspirations	1.211*	1.205	1.204
	(0.116)	(0.115)	(0.116)
Powerful Chief Legal Officer	1.037	1.038	1.037
	(0.036)	(0.036)	(0.036)
Industry Litigation Risk	1.013***	1.013***	1.013***
	(0.001)	(0.001)	(0.001)
CEO-Chair Duality	0.951	0.950	0.950
	(0.034)	(0.034)	(0.034)
Outside Directors (%)	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)
Shared Held by Management (%)	1.000	1.000	1.000
	(0.001)	(0.001)	(0.001)
Board Size	1.003	1.003	1.003
	(0.009)	(0.009)	(0.009)
Institutional Blockholder Ownership (%)	1.001	1.001	1.001
	(0.001)	(0.001)	(0.001)
Fortune's Most Admired Company	1.070	1.071	1.069
	(0.053)	(0.053)	(0.053)
Firm Age (Log)	0.926*	0.926*	0.926*
	(0.031)	(0.031)	(0.031)
Assets (Log)	1.536***	1.534***	1.536***
	(0.027)	(0.027)	(0.027)
Absorbed Slack	0.989	0.989	0.989
	(0.009)	(0.009)	(0.009)
Potential Slack	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)
Unabsorbed Slack	1.061***	1.061***	1.061***
	(0.017)	(0.017)	(0.017)
Industry ROA	1.002	1.002	1.002
	(0.002)	(0.002)	(0.002)
Industry Competitors	1.000***	1.000***	1.000***
	(0.000)	(0.000)	(0.000)
Industry Concentration	0.665	0.661	0.663
	(0.221)	(0.220)	(0.221)
Firm Fixed Effects	NO	NO	NO
Year Fixed Effects	YES	YES	YES
Observations	61,299	61,299	61,299

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 5: Conditional (Fixed-Effects) Logit Models Predicting Misconduct; Controlling for Prior Misconduct

	M1	M2	M3	M4	M5	M6	M7	M8
Performance Below Aspirations (H1)	1.297*** (0.084)	1.169* (0.079)	2.190*** (0.396)	1.929*** (0.358)	1.314*** (0.086)	1.182* (0.081)	2.226*** (0.403)	1.949*** (0.363)
Interaction Effects								
Powerful Chief Legal Officer (H2)		1.309* (0.148)		1.264* (0.133)		1.320* (0.152)		1.273* (0.137)
X Performance Below Aspirations			0.980** (0.006)	0.982** (0.006)			0.980** (0.006)	0.982** (0.006)
Industry Litigation (%) (H3)								
X Performance Below Aspirations								
Control Variables								
Performance Above Aspirations	1.057 (0.168)	1.059 (0.167)	1.059 (0.170)	1.062 (0.170)	1.050 (0.167)	1.052 (0.167)	1.051 (0.169)	1.054 (0.169)
Powerful Chief Legal Officer	1.032 (0.057)	1.036 (0.057)	1.033 (0.057)	1.037 (0.057)	1.032 (0.058)	1.037 (0.058)	1.033 (0.058)	1.037 (0.058)
Industry Litigation (%)	1.005* (0.002)	1.005* (0.002)	1.004 (0.002)	1.004 (0.002)	1.005* (0.002)	1.005* (0.002)	1.004 (0.002)	1.004 (0.002)
CEO-Chair Duality	0.967 (0.046)	0.968 (0.046)	0.968 (0.046)	0.968 (0.046)	0.966 (0.046)	0.966 (0.046)	0.966 (0.046)	0.967 (0.046)
Outside Directors (%)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)	1.002 (0.002)
Shared Held by Management (%)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)
Board Size	1.001 (0.015)	1.001 (0.015)	1.000 (0.015)	1.000 (0.015)	1.001 (0.015)	1.001 (0.015)	1.000 (0.015)	1.000 (0.015)
Institutional Blockholder Ownership (%)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)
Fortune's Most Admired Company	0.924 (0.073)	0.923 (0.073)	0.923 (0.073)	0.922 (0.073)	0.921 (0.074)	0.920 (0.074)	0.920 (0.074)	0.919 (0.074)
Firm Age (Log)	1.811** (0.352)	1.804** (0.349)	1.797** (0.349)	1.788** (0.347)	1.903** (0.383)	1.896** (0.380)	1.888** (0.379)	1.879** (0.377)
Assets (Log)	1.621*** (0.100)	1.634*** (0.101)	1.631*** (0.100)	1.644*** (0.102)	1.646*** (0.104)	1.660*** (0.105)	1.656*** (0.104)	1.670*** (0.106)
Absorbed Slack	0.848 (0.157)	0.856 (0.145)	0.855 (0.145)	0.860 (0.142)	0.856 (0.149)	0.864 (0.137)	0.863 (0.137)	0.867 (0.135)
Potential Slack	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)
Unabsorbed Slack	0.986 (0.026)	0.987 (0.025)	0.986 (0.025)	0.986 (0.025)	0.987 (0.026)	0.988 (0.026)	0.987 (0.026)	0.988 (0.026)
Industry ROA	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)
Industry Competitors	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)
Industry Concentration	3.640 (3.510)	3.720 (3.587)	3.676 (3.551)	3.743 (3.615)	3.902 (3.873)	3.991 (3.962)	3.939 (3.917)	4.012 (3.989)
Prior Misconduct (count)	0.990 (0.006)	0.990 (0.006)	0.990 (0.006)	0.990 (0.006)				
Prior Misconduct (dummy)					0.771*** (0.034)	0.770*** (0.034)	0.770*** (0.034)	0.770*** (0.034)
Firm Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	16,642	16,642	16,642	16,642	16,642	16,642	16,642	16,642

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 6: Conditional (Fixed-Effects) Logit Models Predicting Misconduct by Risk Category; Controlling for Prior Misconduct

	M1	M2	M3	M4	M5	M6
Interaction Terms						
(REF= Distal Misconduct Risk)						
Proximate Misconduct Risk (H4)	1.348**		1.633***	1.346**		1.626***
X Performance Below Aspirations	(0.144)		(0.236)	(0.143)		(0.233)
Other Misconduct Risk		0.932	1.371*		0.932	1.364*
X Performance Below Aspirations		(0.091)	(0.218)		(0.089)	(0.215)
Lower Order Terms						
Performance Below Aspirations	0.984	1.191***	0.810	0.994	1.200***	0.821
	(0.076)	(0.051)	(0.110)	(0.075)	(0.052)	(0.110)
Proximate Misconduct Risk	4.171***	4.132***	4.214***	4.175***	4.135***	4.216***
	(0.256)	(0.255)	(0.260)	(0.256)	(0.255)	(0.261)
Other Misconduct Risk	0.852*	0.851*	0.865*	0.852*	0.850*	0.865*
	(0.056)	(0.056)	(0.057)	(0.056)	(0.056)	(0.057)
Control Variables						
Performance Above Aspirations	0.949	0.948	0.943	0.946	0.945	0.941
	(0.122)	(0.121)	(0.121)	(0.122)	(0.122)	(0.122)
Powerful Chief Legal Officer	0.993	0.993	0.993	0.992	0.992	0.992
	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)
Industry Litigation (%)	1.004**	1.004**	1.004**	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
CEO-Chair Duality	0.959	0.958	0.959	0.958	0.957	0.957
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
Outside Directors (%)	1.002	1.002	1.002	1.002	1.002	1.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Shared Held by Management (%)	1.001	1.001	1.001	1.001	1.001	1.001
	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)	(0.002)
Board Size	0.995	0.995	0.995	0.994	0.995	0.994
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Institutional Blockholder Ownership (%)	1.004**	1.004**	1.004**	1.005***	1.005***	1.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fortune's Most Admired Company	0.978	0.979	0.977	0.976	0.978	0.975
	(0.051)	(0.051)	(0.051)	(0.051)	(0.052)	(0.051)
Firm Age (Log)	1.550**	1.553**	1.551**	1.610**	1.614**	1.611**
	(0.235)	(0.235)	(0.235)	(0.251)	(0.251)	(0.251)
Assets (Log)	1.444***	1.439***	1.443***	1.458***	1.454***	1.457***
	(0.065)	(0.065)	(0.065)	(0.067)	(0.067)	(0.067)
Absorbed Slack	0.876	0.887	0.879	0.882	0.893	0.885
	(0.120)	(0.113)	(0.117)	(0.115)	(0.108)	(0.112)
Potential Slack	1.000	1.000	1.000	1.000	1.000	1.000
	(0.000)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
Unabsorbed Slack	0.992	0.992	0.992	0.993	0.993	0.993
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Industry ROA	1.003	1.003	1.003	1.003*	1.003*	1.003*
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Industry Competitors	1.000	1.000	1.000	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry Concentration	1.776	1.769	1.778	1.858	1.852	1.860
	(1.354)	(1.349)	(1.356)	(1.463)	(1.458)	(1.464)
Prior Misconduct (count)	0.995	0.995	0.995			
	(0.004)	(0.004)	(0.004)			
Prior Misconduct (dummy)				0.842***	0.842***	0.842***
				(0.027)	(0.027)	(0.027)
Firm Fixed Effects	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	49,926	49,926	49,926	49,926	49,926	49,926

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 7: Models Predicting Misconduct; Using Historical ROA as Performance Measure

	Random Effects Logit Models				Fixed Effects Logit Models			
	M1	M2	M3	M4	M5	M6	M7	M8
Performance Below Aspirations (H1)	1.143** (0.047)	1.121* (0.055)	1.763*** (0.263)	1.729*** (0.268)	1.127 (0.110)	1.112 (0.071)	1.749** (0.340)	1.724** (0.342)
Interaction Effects								
Powerful Chief Legal Officer (H2)		1.085 (0.110)		1.045 (0.093)		1.031 (0.238)		1.056 (0.136)
X Performance Below Aspirations			0.985** (0.005)	0.985** (0.005)			0.984* (0.007)	0.984* (0.007)
Industry Litigation (%) (H3)								
X Performance Below Aspirations								
Control Variables								
Performance Above Aspirations	1.113 (0.084)	1.115 (0.084)	1.119 (0.085)	1.119 (0.085)	1.029 (0.090)	1.028 (0.091)	1.039 (0.088)	1.035 (0.088)
Powerful Chief Legal Officer	1.057 (0.047)	1.057 (0.047)	1.057 (0.047)	1.057 (0.047)	1.034 (0.057)	1.034 (0.057)	1.035 (0.057)	1.035 (0.057)
Industry Litigation (%)	1.017*** (0.002)	1.017*** (0.002)	1.017*** (0.002)	1.017*** (0.002)	1.005* (0.002)	1.005* (0.002)	1.005* (0.002)	1.005* (0.002)
CEO-Chair Duality	0.955 (0.043)	0.955 (0.043)	0.955 (0.043)	0.955 (0.043)	0.964 (0.046)	0.964 (0.046)	0.965 (0.046)	0.966 (0.046)
Outside Directors (%)	1.004* (0.002)	1.004* (0.002)	1.004* (0.002)	1.004* (0.002)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)
Shared Held by Management (%)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)
Board Size	1.008 (0.011)	1.008 (0.011)	1.008 (0.011)	1.008 (0.011)	1.002 (0.015)	1.002 (0.015)	1.001 (0.015)	1.001 (0.015)
Institutional Blockholder Ownership (%)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)	1.001 (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)
Fortune's Most Admired Company	1.090 (0.074)	1.090 (0.074)	1.090 (0.074)	1.090 (0.074)	0.923 (0.073)	0.923 (0.073)	0.922 (0.073)	0.922 (0.073)
Firm Age (Log)	0.901* (0.040)	0.901* (0.041)	0.901* (0.041)	0.901* (0.041)	1.794** (0.349)	1.794** (0.349)	1.788** (0.347)	1.786** (0.346)
Assets (Log)	1.732*** (0.041)	1.732*** (0.041)	1.735*** (0.041)	1.735*** (0.041)	1.591*** (0.099)	1.592*** (0.100)	1.599*** (0.099)	1.602*** (0.100)
Absorbed Slack	0.986 (0.011)	0.986 (0.011)	0.986 (0.011)	0.986 (0.011)	0.920 (0.109)	0.922 (0.106)	0.919 (0.107)	0.922 (0.104)
Potential Slack	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)
Unabsorbed Slack	1.076*** (0.021)	1.076*** (0.021)	1.076*** (0.021)	1.076*** (0.021)	0.980 (0.025)	0.980 (0.025)	0.980 (0.025)	0.980 (0.025)
Industry ROA	1.003 (0.002)	1.003 (0.002)	1.003 (0.002)	1.003 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)
Industry Competitors	1.000*** (0.000)	1.000*** (0.000)	1.000*** (0.000)	1.000*** (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)
Industry Concentration	0.667 (0.291)	0.672 (0.293)	0.672 (0.293)	0.673 (0.294)	3.674 (3.519)	3.684 (3.530)	3.772 (3.609)	3.787 (3.623)
Firm Fixed Effects	NO	NO	NO	NO	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	20,420	20,420	20,420	20,420	16,636	16,636	16,636	16,636

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 8: Models Predicting Misconduct by Risk Category; Using Historical ROA as Performance Measure

	Random Effects Logit Models			Fixed Effects Logit Models		
	M1	M2	M3	M4	M5	M6
Interaction Terms						
(REF= Distal Misconduct Risk)						
Proximate Misconduct Risk (H4)	1.104+		1.194+	1.107		1.276+
X Performance Below Aspirations	(0.065)		(0.110)	(0.113)		(0.161)
Other Misconduct Risk		0.990	1.127		1.002	1.242+
X Performance Below Aspirations		(0.056)	(0.096)		(0.048)	(0.155)
Lower Order Terms						
Performance Below Aspirations	1.031	1.086**	0.953	1.035	1.104+	0.902
	(0.047)	(0.032)	(0.070)	(0.064)	(0.064)	(0.096)
Proximate Misconduct Risk	4.053***	4.049***	4.060***	4.133***	4.130***	4.145***
	(0.145)	(0.145)	(0.241)	(0.254)	(0.255)	(0.255)
Other Misconduct Risk	0.759***	0.759***	0.761***	0.852*	0.852*	0.855*
	(0.034)	(0.034)	(0.052)	(0.056)	(0.056)	(0.056)
Control Variables						
Performance Above Aspirations	1.079	1.078	1.077	1.008	1.009	1.006
	(0.067)	(0.067)	(0.058)	(0.071)	(0.069)	(0.072)
Powerful Chief Legal Officer	1.038	1.038	1.038	0.994	0.994	0.994
	(0.036)	(0.036)	(0.035)	(0.040)	(0.040)	(0.040)
Industry Litigation Risk	1.014***	1.014***	1.014***	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
CEO-Chair Duality	0.951	0.951	0.950	0.957	0.957	0.957
	(0.034)	(0.034)	(0.031)	(0.034)	(0.034)	(0.034)
Outside Directors (%)	1.004**	1.004**	1.004***	1.002	1.002	1.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Shared Held by Management (%)	1.000	1.000	1.000	1.001	1.001	1.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Board Size	1.002	1.002	1.002	0.995	0.995	0.995
	(0.009)	(0.009)	(0.008)	(0.011)	(0.011)	(0.011)
Institutional Blockholder Ownership (%)	1.001	1.001	1.001	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fortune's Most Admired Company	1.076	1.077	1.076+	0.975	0.976	0.975
	(0.054)	(0.054)	(0.047)	(0.051)	(0.051)	(0.051)
Firm Age (Log)	0.924*	0.924*	0.924*	1.537**	1.538**	1.537**
	(0.032)	(0.032)	(0.033)	(0.233)	(0.233)	(0.233)
Assets (Log)	1.526***	1.525***	1.526***	1.429***	1.429***	1.429***
	(0.027)	(0.027)	(0.028)	(0.065)	(0.065)	(0.065)
Absorbed Slack	0.989	0.989	0.989	0.936	0.936	0.936
	(0.009)	(0.009)	(0.007)	(0.086)	(0.086)	(0.086)
Potential Slack	1.000	1.000	1.000	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)
Unabsorbed Slack	1.061***	1.061***	1.061***	0.987	0.987	0.987
	(0.017)	(0.017)	(0.019)	(0.021)	(0.021)	(0.021)
Industry ROA	1.002	1.002	1.002	1.003+	1.003+	1.003+
	(0.002)	(0.002)	(0.001)	(0.002)	(0.002)	(0.002)
Industry Competitors	1.000***	1.000***	1.000***	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry Concentration	0.665	0.666	0.664	1.787	1.788	1.784
	(0.222)	(0.222)	(0.215)	(1.354)	(1.355)	(1.352)
Firm Fixed Effects	NO	NO	NO	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	61,260	61,260	61,260	49,908	49,908	49,908

Exponentiated coefficients; Standard errors in parentheses
+ p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 9: Conditional (Fixed-Effects) Logit Models Predicting Misconduct; Using Simple Net Income as Performance Measure

	M1	M2	M3	M4
Performance Below Aspirations (H1)	1.212*** (0.061)	1.108 (0.064)	1.554*** (0.188)	1.407** (0.182)
Interaction Effects				
Powerful Chief Legal Officer (H2) X Performance Below Aspirations		1.290* (0.143)		1.253* (0.141)
Industry Litigation (%) (H3) X Performance Below Aspirations			0.991* (0.003)	0.993* (0.003)
Control Variables				
Performance Above Aspirations	0.929 (0.041)	0.928 (0.041)	0.932 (0.041)	0.931 (0.041)
Powerful Chief Legal Officer	1.032 (0.053)	1.037 (0.053)	1.033 (0.053)	1.038 (0.053)
Industry Litigation (%)	1.005* (0.002)	1.005* (0.002)	1.005* (0.002)	1.005* (0.002)
CEO-Chair Duality	0.967 (0.047)	0.969 (0.047)	0.968 (0.047)	0.970 (0.047)
Outside Directors (%)	1.001 (0.002)	1.001 (0.002)	1.002 (0.002)	1.001 (0.002)
Shared Held by Management (%)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)	1.000 (0.002)
Board Size	1.002 (0.014)	1.002 (0.014)	1.001 (0.014)	1.001 (0.014)
Institutional Blockholder Ownership (%)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)	1.005** (0.002)
Fortune's Most Admired Company	0.940 (0.075)	0.940 (0.075)	0.932 (0.074)	0.935 (0.075)
Firm Age (Log)	1.786*** (0.279)	1.786*** (0.279)	1.781*** (0.278)	1.781*** (0.278)
Assets (Log)	1.601*** (0.084)	1.605*** (0.085)	1.601*** (0.084)	1.604*** (0.084)
Absorbed Slack	0.918 (0.107)	0.917 (0.108)	0.917 (0.108)	0.915 (0.109)
Potential Slack	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)	1.000 (0.001)
Unabsorbed Slack	0.979 (0.027)	0.979 (0.027)	0.979 (0.027)	0.979 (0.027)
Industry ROA	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)	1.004 (0.002)
Industry Competitors	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)
Industry Concentration	4.476 (3.985)	4.788 (4.268)	4.459 (3.975)	4.715 (4.206)
Firm Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
Observations	16,645	16,645	16,645	16,645

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

Appendix 10: Conditional (Fixed-Effects) Logit Models Predicting Misconduct by Risk Category; Using Simple Net Income as Performance Measure

	M1	M2	M3
Interaction Terms			
(REF= Distal Misconduct Risk)			
Proximate Misconduct Risk (H4)	1.067*		1.109***
X Performance Below Aspirations	(0.027)		(0.034)
Other Misconduct Risk		1.036	1.104*
X Performance Below Aspirations		(0.042)	(0.050)
Lower Order Terms			
Performance Below Aspirations	0.998	1.022	0.960
	(0.020)	(0.022)	(0.027)
Proximate Misconduct Risk	4.157***	4.133***	4.181***
	(0.255)	(0.255)	(0.256)
Other Misconduct Risk	0.852*	0.855*	0.862*
	(0.056)	(0.056)	(0.057)
Control Variables			
Performance Above Aspirations	0.962	0.962	0.963
	(0.022)	(0.022)	(0.022)
Powerful Chief Legal Officer	0.993	0.992	0.993
	(0.040)	(0.040)	(0.040)
Industry Litigation (%)	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)
CEO-Chair Duality	0.958	0.957	0.958
	(0.034)	(0.034)	(0.034)
Outside Directors (%)	1.002	1.002	1.002
	(0.001)	(0.001)	(0.001)
Shared Held by Management (%)	1.001	1.001	1.001
	(0.001)	(0.001)	(0.001)
Board Size	0.995	0.995	0.995
	(0.011)	(0.011)	(0.011)
Institutional Blockholder Ownership (%)	1.004**	1.004**	1.004**
	(0.001)	(0.001)	(0.001)
Fortune's Most Admired Company	0.992	0.992	0.992
	(0.052)	(0.052)	(0.052)
Firm Age (Log)	1.522**	1.523**	1.522**
	(0.223)	(0.223)	(0.223)
Assets (Log)	1.447***	1.446***	1.447***
	(0.067)	(0.067)	(0.067)
Absorbed Slack	0.936	0.938	0.935
	(0.084)	(0.083)	(0.085)
Potential Slack	1.000	1.000	1.000
	(0.001)	(0.001)	(0.001)
Unabsorbed Slack	0.988	0.988	0.989
	(0.021)	(0.021)	(0.021)
Industry ROA	1.003	1.003	1.003
	(0.002)	(0.002)	(0.002)
Industry Competitors	1.000	1.000	1.000
	(0.000)	(0.000)	(0.000)
Industry Concentration	1.943	1.960	1.947
	(1.447)	(1.461)	(1.450)
Firm Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
Observations	49,935	49,935	49,935

Exponentiated coefficients; Standard errors in parentheses

* p < 0.05, ** p < 0.01, *** p < 0.001

CHAPTER 3
THE DARK SIDE OF INSTITUTIONAL CHANGE:
MANAGERIAL COGNITION, ELITE INFLUENCE, AND CORPORATE
POLITICAL ACTIVITIES

Abstract

Organizations increasingly attempt to manipulate their regulatory environments by reshaping public policy to their interests. Extant research suggests that corporate political activities reflect a matching of firm resources to external opportunities, but ignores the role of managerial cognition. Using longitudinal data on S&P1500 firms' lobbying and political action committee expenditures between 2000-2017, I find that political activities change considerably under the leadership of different CEOs. Organizations increase political activity when led by CEO's with experience in Business Roundtable, a peak organization credited for the successful mobilization of business elites against regulation in the 1970's and 1980's, but they decrease political activities when led by CEOs with a legal background. Organizations also increase political activities when led by CEO's who are more politically active or more ideologically conservative. Firms' levels of internal and external monitoring moderated some of these effects. The study advances the literature on institutional change, identifying sources of managerial cognition that affect how organizations manipulate their regulatory environments. More broadly, the study identifies powerful organizations as vehicles of indirect elite influence in an era that has seen a fracturing of the business elite.

Keywords: institutional change, corporate political activities, managerial cognition, business elites, CEOs

How institutions change is a central question for organizational theory. While earlier work emphasized how environments shape organizations, recent studies have shown that organizations also actively shape their environments. This research on institutional change has emphasized the practices of actors aimed at creating, maintaining and disrupting institutions (Lawrence and Suddaby 2006; Battilana, Leca and Boxenbaum 2009; Hardy and Maguire 2017). The successful mobilization of individual or collective actors can have profound consequences for the structure of the field, transforming dominant organizational practices, structures and regulatory institutions.

Corporate political activity represents an important source of institutional change with the potential to restructure regulatory environments. Rather than being passively shaped by the state, powerful organizations increasingly influence politicians, advancing public policies that align with their profitability goals rather than the public interest (Oliver and Holzinger, 2008). Organizational research indicates that corporate political activity by individual firms may have become more important in the twenty-first century since there been a decline in network cohesion and collective mobilization among the business elite (Mizruchi and Marshall 2016; Chu and Davis 2016; Benton and Cobb 2019) but growth in individual firms' lobbying and campaign contributions (Bonica 2016). Hence, scholars of institutional change have called for research to examine the dynamics of corporate political activities in order to shed light on how powerful actors set the rules of the game (Hinings and Greenwood, 2002; Barley, 2007; 2010; Zald and Lounsbury, 2010).

To date, the best explanation for this phenomena has been that corporate political activity reflects firms' resources and regulatory intensity. This dynamic capabilities approach treats corporate political activity as a standard firm strategy, with firms engaging in a cost-benefit analysis to determine whether they can leverage internal assets to earn economic rents by influencing regulations (Hillman and Hitt, 1999; Oliver and Holzinger, 2008). Firms that have

abundant resources and operate in industries targeted by regulation are thought to be most likely to engage in political activity in order to reduce institutional constraint.

Yet, this research does not specify a role for managerial cognition in the formulation of firms' political strategies. There are two reasons we might expect corporate political activity to vary under the leadership of different CEOs. First, research on managerial cognition indicates that leaders' experiences and values shape their interpretations of the strategic situations they face (Finkelstein and Hambrick 1996; Hambrick 2007; Eggers and Kaplan 2013). Second, a large body of institutional research has shown that organizations strive for legitimacy in the eyes of external audiences, with managers avoiding practices that could be perceived as normatively objectionable (Deephouse and Suchman 2008; Anteby 2010; Suddaby, Bitektine and Haack 2017). Taken together, these insights suggest that managerial cognition might affect firms' political activities, as managers draw on prior experiences and values to make sense of these practices.

In this paper, I ask whether managerial cognition—specifically, the experiences and values of CEOs—might affect firms' political activities. To test my predictions, I use a longitudinal dataset of S&P1500 firms' lobbying and political action committee expenditures between 2000-2017, I examine whether political activities change under the leadership of different CEOs. Results reveal considerable managerial discretion over corporate political activities, with prior personal experiences affecting subsequent firm political activities. While extant research has described a historical fracturing of the corporate elite, the findings identify powerful organizations as indirect channels of elite influence. By focusing on the behaviors of powerful actors in shaping corporate political activities, I aim to lay a foundation to begin addressing criticisms that institutional theory ignores elites and inequality-generating societal institutions (Davis 2017; Hampel, Lawrence and Tracey 2017).

COPORATE POLITICAL ACTIVITY AS A SOURCE OF INSTITUTIONAL CHANGE

Corporate political activity represents a powerful source of institutional change. Oliver and Holzinger (2008) define these political behaviors as “the set of strategic actions that firms plan and enact for the purpose of maximizing economic returns from the political environment.” Firms can engage in three broad approaches to corporate political activity (Hillman and Hitt, 1999), shaping public policy by providing information to political decision makers (information strategy), providing financial support to political decision makers (financial incentives strategy), or by mobilizing voters and citizens (constituency-building strategy). Changes to campaign finance laws and court decisions in the mid-1970’s opened up new pathways for firms’ to influence the policy-making process, with a subsequent explosion of political action committees and lobbying activities (Barley 2010). Although there are a variety of avenues for political influence that firms can draw on (Werner 2017; p.2429), lobbying remains the most ubiquitous followed by political action committees (PACs). Corporate political activity has risen in the 21st century, with steady increases in both lobbying and PAC spending (Bonica 2016).

Organizations engage in political activity because laws and regulations impose constraints on their structures and practices. Neo-institutional theory has long emphasized the prominent role of the regulatory environment in shaping organizations (DiMaggio and Powell 1983; p.150). Subsequent research highlighted how public policy shaped competitive dynamics of industries (Dobbin and Dowd 1997), as well as the spread of practices intended to promote compliance with new laws (Dobbin et al., 1993; Dobbin and Sutton 1998; Dobbin and Dowd 2000; Dobbin and Kelly 2007). Regulatory compliance is important to be perceived as legitimate by external audiences. However, managers can perceive the costs of compliance as high when it requires substantial changes to established routines. In such situations, managers may engage in decoupling

of policy from practice, buffering their operations from meaningful change (Kellogg 2011; Bromley and Powell 2012). Yet, much more attention has been paid to the dynamics of decoupling, as compared to the more aggressive response of attacking the source of institutional constraint directly through corporate political activity.

Historical accounts of institutional change identify business elites—CEO's of powerful corporations—as the key actors responsible for forging the present regulatory order. Barley (2010) describes how a unified front of CEO's successfully fought back against the progressive regulatory environment that had formed in the 1960's and 70's. This era of economic growth coincided with the proliferation of public interest advocacy groups, corporate tax increases, new laws protecting consumers and the environment, and the creation of three powerful regulatory agencies—the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Consumer Product Safety Commission. These developments were not well received by the business community, which had previously enjoyed a high degree of autonomy. CEOs of the leading US firms grew increasingly hostile towards what they perceived to be an excessively burdensome regulatory environment (Useem 1986; Mizruchi and Marshall 2016).

By the 1980's business elites were unified in a coordinated effort to reign in the influence of public interest groups, regulators, and redistributive government policies. Several peak organizations formed in the 1970's, many of which opened offices in Washington to directly represent lobby Congress and represent business interests across industries. By the mid-1970's the number of business political action committees (PACs) exploded, raising funds in support of pro-business candidates running for office (Barley 2010). The era also saw the rise of government affairs offices, public relations firms, lobbying firms, ad hoc organizations and think tanks. CEO's

also began taking more active roles in shaping public policy by serving in cabinet-level positions and advisory committees, many of which related to enforcement efforts of regulatory agencies.

Yet, by the 21st century, this cohesive group of business elites appear to have disbanded, shifting the locus of political action to individual firms. Declining cohesion is most clearly reflected in the deterioration of the corporate interlock network that previously connected many CEOs. Since the 1900's, CEOs held several overlapping board appointments which enabled information diffusion and collective action among the business elite. However, in the mid-2000's this elite network had begun to rapidly disintegrate under pressure from investors demanding more independent oversight, leading Chu and Davis (2016; p.750) to conclude that “findings of classic studies—in elite socialization and class consciousness, on political unity and pragmatism, and on corporate learning and isomorphism—no longer hold.” These findings are consistent with Mizruchi's (2013) argument that the 21st century has seen a sharp decline in collective action among American business elites who no longer engage in political mobilization. This fracturing of the business elite has resulted in greater “short-termism” with CEO's more vulnerable to shareholder demands (Benton 2017). Without this traditional source of elite cohesion, CEO's in the 21st century have much less autonomy, with substantial pressure to forgo strategies with longer time horizons in favor of short-term earnings management (Benton and Cobb 2019).

Unpacking these developments is crucial for understanding how organizations generate broader patterns of inequality. Scholars across the social sciences have raised concerns about growing economic inequality, with an upswing occurring in the United States since around 1970 (Piketty 2014; Killewald, Pfeffer and Schachner 2017; Davis 2017). The share of household wealth owned by the top 5% has steadily increased from a staggering 54.2% in 1989 to 62.9% in 2013 (Pfeffer and Schoeni 2016). Many have linked rising inequality to concerns about elite capture,

arguing that the redistributive policies that would have prevented rising inequality have been thwarted by the inordinate influence exerted by elites over public policy (Bonica et al. 2013; Erikson 2015). For example, Gilens and Page (2014) find no significant effect of average citizens' preferences on the adoption of 1,779 government policies. Rather than public policy being responsive to public opinion, they find significant independent effects of support from affluent Americans (in the top 10% of income distribution) and organized business interests.

Concerns about elite capture have led scholars of institutional change to call for research on corporate political activity in order to shed light on how powerful actors shape the rules of game (Hinings and Greenwood, 2002; Barley, 2007; 2010; Zald and Lounsbury, 2010). Recent decades have seen substantial growth in our understanding of how actors change institutions. However, this literature on institutional change (Oliver 1991; Lawrence and Suddaby 2006; Battilana, Leca and Boxenbaum, 2009), has tended to focus on peripheral actors, rather than elites, and has more to say about changes in field-level practices than it does about changes in field-level regulation. As Oliver and Holzinger (2008; 496) note, "firm relations to government have been viewed primarily as a cost for or an institutional constraint on firms (DiMaggio & Powell, 1983, Pfeffer & Salancik, 1978; Scott, 2001), rather than a set of opportunities for leveraging firms' strategic assets and competencies to earn economic rents." Despite the important implications for understanding organizational sources of inequality (Davis 2017), much remains unknown about the determinants of corporate political activity.

Determinants of Corporate Political Activity

How do organizations formulate political strategies for shaping their regulatory environments? The dominant view is that firms are most likely to engage in political behaviors

when they have strong internal political capabilities and when threats emerge in the external environment (Oliver and Holzinger 2008). Decisions to influence public policy thus reflect a cost-benefit calculation, with firms investing resources in political activity in order to extract rents from the public and establish a competitive advantage. These strategic actions can increase a firm's market size, reduce industry competition and increase bargaining power (Hillman and Hitt 1999).

This approach to corporate political activity emphasizes alignment between internal and external factors. First, internal assets are thought to provide organizations with the resources to invest in uncertain or potentially longer-term gains involved with corporate political activity. Hence, larger and more well-resourced organizations tend to be more politically active (Masters and Keim 1985; Lenway and Rehbein 1991; Meznar and Nigh 1995). Second, the external pace of change presents a set of opportunities to extract future rents or to protect current value of the firm from potential erosion. Corporate political activity is thought to be most effective at capturing value when it proactively aims to manipulate existing institutional arrangements to fit the firm's strengths and interests (Oliver and Holzinger 2008). This medium to long-term strategy can yield a variety of financial benefits such as lower corporate taxes (Richter et al. 2009), less scrutiny from regulators (Witko 2013), and weaker protections for workers (Clawson and Clawson 1999; Dixon 2010).

However, this dynamic capability approach does consider the potential role of managerial cognition in corporate political activity. This is especially important since efforts to extract rents from the external environment can have negative consequences for the local communities in which the firm operates. Hence managers may have an important role in interpreting the legitimacy of corporate political activity as either a morally questionable practice or a viable non-market

strategy. It is possible that CEO's backgrounds and experiences could shape their perspective on the legitimacy of corporate political activities, affecting the political actions of the firms they lead.

This potential interpretative role of CEOs is supported by research on managerial cognition which indicates that prior experiences and values can affect the repertoire of strategies that managers draw upon and as well as their interpretation of the external environment. This upper-echelons perspective extends Carnegie school notions of bounded rationality (March and Simon 1958) to explain strategic action as a function of executives' experiences, values and personalities (Hambrick and Mason 1984; Hambrick 2007). Managerial cognition can affect several parts of the strategy-making process, with managers drawing on prior experiences both to identify and build internal capabilities from routines, and also to match capabilities to perceived opportunities in the external environment (Eggers and Kaplan 2013). It reflects an individual-level imprinting process whereby individuals develop characteristics that reflect prominent features of their environment, with these persistent characteristics influencing decision making in subsequent periods (Marquis and Tilcsik 2013). In particular, empirical studies have shown that executives' education (Jung and Shin 2018), political ideology (Chin, Hambrick and Treviño 2013; Gupta, Briscoe and Hambrick, 2017) and work experiences can shape firm strategies. Hence, I expect that several aspects of CEO's backgrounds and experiences might affect their perceptions of political action, and thus the political behaviors of the firms they lead.

CEO Experiences

Managerial cognition can be powerfully shaped by formative professional experiences (Crossland et al. 2014). Joining an occupational or professional community involves a socialization processes whereby individuals acquire cultural values, norms and worldviews (Van

Maanen and Schein 1979; Anteby, Chan and DiBenigno 2016). With enough time and exposure, participants begin to develop embodied dispositions, attitudes and tastes (Bourdieu 1990). While it is difficult to empirically isolate the homogenizing effects of self-selection and socialization (Weeden and Grusky 2005), qualitative accounts suggest that socialization has a non-trivial role since entry into professional communities require embracing new identities, learning desired behaviors from role models, and adapting to feedback in response to norm violations (Ibarra 1999; Pratt, Rockmann and Kaufmann 2006). I explore two distinct professional experiences—membership in the Business Roundtable and professional legal training—that may shape CEOs’ views of corporate political activity.

Business Roundtable Experience. Business Roundtable served a central role in the mobilization of business elites against government regulation in the late 1970’s and 1980’s. Founded in 1972, the Business Roundtable brought together the most influential CEOs of Fortune 500 companies, under the mission of “telling business’s story to the government and media” (Slavin 1975). Although its membership overlapped with existing groups, the Business Roundtable was decidedly more activist-oriented than its predecessors. The group has been committed to maintaining a unified front, focusing on issues that have broad impact for large corporations, and aggressively lobbying in support of their positions. (Vogel 1989).

The group’s strategy was twofold. First, they sought to reshape public opinion which was overwhelming negative on the impact of business in society. As Barley (2010) notes, the percentage of Americans expressing ‘a great deal of confidence’ in business leaders declined from 51 percent to 16 percent (Lipset and Schneider 1983: 48), with 82 percent of Americans believing that big business had too much power in 1976 (McCloskey and Zallef 1984; 184). Business Roundtable aimed to improve public confidence in business by arranging frequent media appearances

by individual CEOs, who would articulate pro-business views, and express how proposed legislation would impact their company. CEOs only spoke on behalf of their companies, and avoided mention of Business Roundtable in order to make the appearances seem spontaneous, a covert strategy which the group deemed to enhance the credibility of media appearances (Slavin 1975). These efforts were coordinated by the Business Roundtable and its public relations firm and involved promoting particular bills, as well as pro-business ideas more generally. For example, a print campaign led by Business Roundtable emphasized that multinational corporations are helping to create a peaceful and prosperous world, government spending spurs inflation, corporate profits are the lifeblood of American capitalism, and the case against the free market is based on vague philosophical issues rather than on hard economic grounds (Useem 1986; 107).

Second, the Business Roundtable sought to intervene directly in regulatory efforts that could have broad impact across industries. Hence its influence efforts have been focused at the federal level, sending members to advise Senators, Representatives, and Executive branch officials about the impact of proposed bills, and speaking at key congressional subcommittee hearings. Whereas elite business groups had used hired lobbyists in the past, Business Roundtable was more effective in gaining legislators attention by having the CEO's of major corporations reach out directly (Judis 2001). The Business Roundtable has been credited with many decisive legislative victories for "big-business", mobilizing against grassroots efforts for bills relating to consumer protection, antitrust, healthcare and labor law reforms, but also successfully mobilizing in support of energy reforms, and international boycott exemptions and business tax cuts (Vogel 1989; Akard 1992; Judis 2001; Mizruchi 2013). Although the group's influence on policy-making has waned over time (Mizruchi 2013), the Business Roundtable's efforts—particularly key policy wins in the 1980's—were crucial for forging the current regulatory order.

I argue that CEOs' participation in the Business Roundtable represents the type of formative experience capable of imprinting persistent characteristics that influence their decision making in subsequent periods (Marquis and Tilcsik 2013). This is because Business Roundtable affiliates learn about broad elite interests on a range of public policy issue, and develop awareness and capabilities by virtue of participating in efforts to shape public opinion and influence policy makers. One Roundtable committee described part of the group's vision as ensuring that "the oncoming generation of executives develop the ability to participate in the public policy process and to manage the evolving role of the large corporation" (Steckmest 1982; p.265). Hence, I predict that CEOs who are affiliated with Business Roundtable will be more likely to pursue corporate political activity as a legitimate non-market strategy.

Hypothesis 1 (H1): Organizations will engage in more (less) political activity during periods when they (do not) have a CEO who has Business Roundtable experience.

Legal Education. The legal profession imposes an especially strong influence on managerial cognition due the highly structured organization of the field. Membership into any occupational community involves socialization processes whereby individuals acquire cultural values, norms and worldviews (Van Maanen and Schein 1979; Anteby, Chan and DiBenigno 2016). With enough time and exposure individuals develop embodied dispositions, attitudes and tastes (Bourdieu 1990). This socialization process is especially distinct in the legal profession since the process of becoming a lawyer more highly standardized. Lawyers complete formal admissions exams, a standard three-year law school curriculum and post-graduation bar examinations, a process that is overseen and accredited by the American Bar Association. This highly

institutionalized field can be expected to effectively diffuse particular practices of trade with professionals acquiring similar understandings of how their work should be done (DiMaggio and Powell 1983; 152). The process of learning to think like a lawyer is notoriously grueling. Law students experience declines in mental health as they cope with stress of extreme workloads, comparative grading, and highly competitive placements (Glesner 1991; Sheldon and Krieger 2004).

The legal profession has long maintained a clear separation of law from politics. This jurisdictional boundary has been crucial to the success of the legal profession's legitimacy as a source of objective legal expertise (Granfield 1992). Since the 19th century, classical legal thought in America has centered around a conception of an autonomous system of law "untainted by politics" (Nonet and Selznick 1978; Horwitz 1992). This autonomous view of the law proclaims the independence of the judiciary, drawing a sharp distinction between legislative and judicial functions. Procedure is at the heart of the law for this perspective, with regularity and fairness take priority over substantive justice. Hence, legal institutions must remove themselves from the formation of public policy in order to be perceived as independent. Although legal historians have described many threats to the legal profession's reputation for independence—for example, New Deal opposition, court-packing and the Watergate scandal—the bar associations have refused to take political stances, urging members to adhere to its professional norms (Soloman 1992). It is by elevating itself "above" politics, that the legal profession has been effective in protecting its task jurisdiction and maintaining its authority as the rightful defender and interpreter of the law.

Consistent with this apolitical approach, law school cultivates legal professionals with a sense of deference to the law. Expertise is gained by learning how to navigate the system of existing laws and precedents, rather than knowledge about how to manipulate the legislative

process. This sense of deference to the law is developed over time as students engage in combative dialogue and legal analysis, developing legal reasoning about torts, contracts, property, criminal law and civil procedure (Kennedy 1982; Culp 1994). This involves learning how to understand a situation by translating facts into narrow legal categories, building analogies between cases, and understanding the relevant standards from cases or statutory language. As Mertz (2007) concludes from her qualitative study of legal training across eight law schools: “Proper application of the legal tests and categories, gleaned from a proper legal reading of written legal texts, is the foundation on which legally trained professionals draw in claiming authority.” To the extent that lawyers develop power over the law, it is by effectively arguing for their favored legal interpretation of the law in a given situation, rather than by learning how to manipulate public policy through the legislative process. Since professional legal training involves acquiring a sense of deference to existing law, I predict that organizations will engage in less political activity when led by lawyers:

Hypothesis 2 (H2): Organizations will engage in less (more) political activity during periods when they (do not) have a CEO with a legal background.

CEO Values

Managerial cognition can also be shaped by the values that individuals hold. Values are abstract ideas that function as important guiding principles shaping behavior (Maio et al. 2003). Values motivate action, operating through automatic and nonconscious cognitive processes. Hence, individuals often have difficulty articulating the motivational basis of their decisions and engage in sensemaking to justify value-driven behaviors (Vaisey 2009; Miles 2015). Whereas

professional experiences are typically acquired well into adulthood, CEOs' values are often acquired earlier in life through their social backgrounds and identities (Hitlin and Piliavin 2004).

Political Conservatism. Political ideology—ranging from liberalism to conservatism—serves as an organizing device for individuals' values and beliefs. In particular, liberals tend to emphasize egalitarian attitudes and a preference for change, while conservatives are more tolerant of inequality and stability (Jost, Federico and Napier 2009). Hence, studies have shown that conservatives hold more favorable views about religious forms for morality than liberals (Altemeyer 1988) and are also less likely to support redistributive policies (Jacoby 1991; Glaser 2005). The conservative justification of inequality may be motivated by a desire to manage situational uncertainty and threat (Jost et al., 2003). From this perspective, CEO's political ideology should shape the preferences that they hold towards particular strategy decisions to the extent that they relate to social and economic inequality.

Scholars have shown that political ideology powerfully motivates individual behavior in organizations. Recent studies have shown that political ideology can affect decision making across a range of strategic choice domains (Gupta and Wowak 2017; Marquis and Qiao 2018). Consistent with the notion that liberals embrace egalitarian attitudes, this research has shown that liberal CEO's are more likely to create internal employee groups for lesbian, gay, bisexual, and transgender (LGBT) employees (Briscoe, Chin and Hambrick 2014), promote CSR activities (Chin, Hambrick and Treviño 2013), and avoid downsizing initiatives (Gupta, Nadkarni and Mariam 2018). I suggest that since conservative CEOs are more tolerant of inequality than liberal CEOs, they may be more likely to perceive corporate political activity as a legitimate non-market strategy rather than a morally illegitimate practice. Thus, we might expect organizations to exhibit higher levels of lobbying and PAC expenditures when led by more conservative CEOs:

Hypothesis 3 (H3): Organizations will engage in more (less) political activity during periods when they (do not) have a more ideologically conservative CEO.

Personal Political activity. CEOs who are personally politically active as donors may also be more likely to view political spending as a legitimate practice. There are two main reasons why this may be the case. First, their personal political spending might reflect a libertarian view of public policy in which political donations are a legitimate means of expressing constitutionally protected speech (Dawood 2015). From this perspective, money amounts to speech since spending on political campaigns or advertising enables people to communicate their viewpoints. This libertarian view of campaign finance laws underlies key Supreme Court decisions such as *Buckley v. Valeo* and *Citizens United v. FEC* which ruled against limits on expenditures citing the First Amendment (Sullivan 1997; 2010). This focus on individual liberty prioritizes freedom of speech over concerns about the ability of wealthy individuals to monopolize public discourse (Sunstein 1994; Hasen 2011). CEOs who are more active political donors may embrace this libertarian approach, viewing corporate political activities as a legitimate channel to express their views on public policies that affect their organization.

Second, CEOs' earlier personal political donations may provide them with greater familiarity with political spending as a pragmatic tool for influencing public policy in their leadership role. Political participation can have powerful imprinting effects, shaping participants' cognition years after their involvement in the political process (McAdam 1989; Sherkat and Blocker 1997) and encouraging subsequent political participation long after the initial involvement (Campbell 2006; Kloffstad 2010). Hence, CEOs' prior experience making personal political

donations may lead them to subsequently draw on corporate political activity as a non-market strategy in their professional life. This greater familiarity with political spending is consistent with the view that perceptions of legitimacy are undergirded by both normative and cognitive dimensions (Scott 1995; Suddaby, Bitektine and Haack 2017). Whereas libertarian beliefs may lead one to believe that political spending is the right way of doing things (normative legitimacy), greater personal familiarity with political donations may lead one to view political spending as a ‘taken-for-granted’ or ‘natural’ tool for influencing public policy (cognitive legitimacy). Taken together, this research suggests that organizations will spend more on PACs and lobbying when led by CEO’s with more personal experience as political donors:

Hypothesis 4 (H4): Organizations will engage in more (less) political activity during periods when they have a CEO who is more (less) personally politically active.

Moderating Effect of Corporate Governance

The extent of CEO discretion over strategic decisions is constrained by the firm’s governance structures. Recent decades have seen a growth in board independence (Chu and Davis 2015) and institutional blockholder ownership (Useem 1996), with managerial decision-making subject to internal and external scrutiny. While American CEO’s experience considerable discretion in setting firm strategies as compared to their international counterparts (Crossland and Hambrick 2007), the influence from individuals holding governance roles may affect their ability to enact their preferences. Hence, internal and external monitoring could moderate the effects of CEOs’ experiences and values on their firms’ political activities.

Internal Monitoring. In theory, outside directors have an important governance role, curbing CEO discretion by serving as the main source of internal monitoring. This agency theory approach (Beatty and Zajac 1994; Jensen and Meckling 1976) has long been the dominant view in corporate governance research. Outside directors—who are not employees, managers or direct stakeholders in the company—are thought to be more effective than inside directors whose non-arms-length relationships compromise their ability to make impartial decisions about hiring, compensating and overseeing managers (Daily, Dalton and Cannella 2003; Hillman and Dalziel 2003). Hence, outside directors ensure that managerial decisions reflect the interests of shareholders, rather than the self-interested motives of executives. From this perspective, we might expect boards with more outside directors to reduce the extent of CEO discretion over corporate political activities since they should steer these strategic decisions towards the interests of the firms rather than the whims of individual CEOs.

However, governance scholars are increasingly skeptical of these claims, suggesting that outside directors may actually be less effective at monitoring CEOs than inside directors. These scholars have called attention to the highly inconsistent empirical findings around board independence and performance (Dalton et al., 1998), arguing that outside directors have unique challenges obtaining, processing and sharing information (Boivie et al., 2016). Most outside directors have full-time jobs in other firms and sometimes serve on multiple boards, limiting the amount of time and attention they allocate to their oversight role. Outside directors may also experience more difficulty understanding the internal operations or industry contexts of the firms which they oversee, particularly as the strategic context differs from that of their full-time jobs (Carpenter and Westphal 2001; Khanna, Jones and Boivie 2014). Additional group-level complexity and firm-level complexity can also contribute to outside directors experiencing a

disparity in their understanding of the firm's activities as compared to the managers who they are tasked with monitoring. Hence, we might expect that outside directors may actually be less involved with overseeing corporate political activities, allowing CEOs to exert greater discretion:

Hypothesis 5 (H5): The effects of managers' experiences and values on political activity will be stronger when internal monitoring (by outside directors) is higher.

External Monitoring. Institutional investors are the primary source of external monitoring, and may be more supportive of longer-term or contentious strategies such as political influence. First, since blockholding investors own more than five percent of shares, they cannot easily sell their stake in the company without harming the stock price before divesting (Davis and Thompson 1994). This situation leads them to take on an active role in setting firm strategies, with their activism documented across a range of industries and decision contexts (Hambrick and Finkelstein 1995; Pernell, Jung and Dobbin 2017). Since blockholding institutional investors hold an illiquid stake in the organization, they may be more willing to support strategies with a longer-term payoff (Brown 1998; Ryan and Schneider 2002; Chen, Harford and Li 2007). Political activities such as lobbying and campaign contributions represent a longer-term strategy with gains that may be less immediate or quantifiable as compared to traditional market strategies. Institutional blockholders see themselves as long-term investors in the organization and may be more supportive of corporate political activity since they will be around to reap the rewards over a longer time horizon.

Second, corporate political activity is consistent with the aggressive approach of blockholding institutional investors. They exert strong performance pressure on managers, with a

single-minded focus on shareholder benefits (Useem 1996). As a result, they do not shy away from contentious practices, and are largely indifferent towards the negative consequences for employees or the local communities in which the firm operates. Hence, blockholding institutional investors have aggressively pushed for mass layoffs, acquisitions, divestitures and executive exits (Useem 1996; Cobb 2012; Jung and Shin 2018). Given their high tolerance for contentious practices, I predict that external monitoring by blockholding institutional investors will embolden CEOs who perceive corporate political activities as a legitimate non-market strategy:

Hypothesis 6 (H6): The positive effects of managers' experiences and values on political activity will be stronger (weaker) when firms are (not) monitored by blockholding institutional investors.

METHODS

To test my argument, I constructed a sample consisting of all firms that ever appeared in the S&P1500 between 2000 and 2017. Given that the sample does not include smaller corporations not included in the S&P1500 index, the empirical results reflect the behavior of larger firms. However, since the largest firms account of the vast majority of political spending (Kerr, Lincoln, and Mishra, 2014), focusing on the behavior of these firms has strong relevance for the general phenomenon of corporate political activity. After accounting for missing data on control variables, the final analytical sample consisted of 2,352 firms and 26,038 firm-year observations.

Outcome Variables: Corporate Political Activity

The key dependent variables are firms' annual *lobbying expenditures*, *PAC expenditures*, and *overall political expenditures* which are the sum of lobbying and PAC expenditures. I log-transformed (+1) these dollar amounts to correct for skewed values. I used the Center for Responsive Politics' lobbying and campaign finance databases to match firms to their annual political expenditures. The lobbying database consolidates lobbying expenditures from lobbying disclosure reports which firms and their lobbyists must file with the Secretary of the Senate's Office of Public Records. The campaign finance database consolidates Federal Election Commission data including PAC expenditures.

Explanatory and Moderating Variables

The key explanatory variables are time-varying variables for CEO characteristics which are updated annually. I used Execucomp to identify each firm's CEO for every year in the sample, and filled in missing data by manually searching for missing CEO firm-years in BoardEx. To test hypothesis 1, I constructed an indicator variable measuring whether the CEO *has Business Roundtable Experience*, which takes the value of 1 for CEOs who have previously served on the Business Roundtable. I created another indicator variable for whether the *CEO has a law degree*, which takes the value of 1 for CEO's who graduated with a J.D. degree, the requisite degree to practice law in the United States. This data was collected from BoardEx which contains detailed information about executives' education and affiliations with missing year information manually collected using Factiva searches for the first year the CEO was identified as a member of Business Roundtable.

I constructed measures of CEO's political orientation to test hypotheses 3 and 4, using the Centre for Responsive Politics' individual donation data from the 1990-2016 election cycles. First,

I include a *count of the CEO's political contributions* which captures the extent to which CEO's are politically engaged. I log transform this variable since I expect the effect of political engagement to be stronger at the lower end of the distribution (the effect of increasing contributions from one to 25 is likely more important than increasing from 75 to 100). Taking the natural log also helps account for the skewness of this count variable. Second, I follow established procedures (Chin, Hambrick and Treviño, 2013; Gupta and Wowak, 2017), to construct a *political conservatism index*. This variable ranges from 0 to 100 and was calculated by taking the average of four ratios: 1) the number of donations to the Republicans divided by total donations to Republicans and Democrats, 2) the dollar amount of donations to Republicans divided by donations to Republicans and Democrats, 3) the number of years with donations to Republicans divided by the total number of years the CEO donated to either party, and 4) the number of unique Republican recipients of donations divided by the total number of donation recipients from either party. Consistent with prior studies, CEOs who never made a donation to either party are assumed to be moderates and assigned a value of 50.

I included interaction terms of these CEO characteristics with two moderating variables to test hypotheses 5 and 6. First, I measured the extent of internal monitoring using the *percentage of outside directors* on the board. This data was collected from the MSCI ESG and Institutional Shareholder Services governance databases. Second, I measured the extent of external monitoring using the *percentage of the firm's stock owned by blockholding institutional investors*. I obtained this information from Thomson Financial's institutional ownership database, which contains all institutional investors holding at least 5% of a firm's stock.

Control Variables

I included a number of CEO-level controls that could be related to corporate political activities. This included whether the CEO was *female*, their *age*, and years of *tenure* at the firm. I controlled for whether the CEO *has a business degree (M.B.A.)*, since prior research has shown that business education can encourage particular firm strategies (Jung and Shin 2018). Finally, I control for elite characteristics that could be related to acquiring Business Roundtable experience by including indicator variables for whether the CEO *has Fortune 500 experience*, and whether they attended *an ivy league school*. The latter includes all ‘Ivy Plus’ schools—Brown, Columbia, Cornell, Dartmouth, Harvard, Pennsylvania, Princeton, Yale, Stanford, Duke, MIT, and Chicago.

I also included a battery of firm-level controls for factors that could affect corporate political activity. To account for firm changes which may be related to both executive succession and corporate political activities, I include an indicator variable for *CEO turnover* which takes the value of 1 if the firm experienced a CEO departure. I also control for *firm age (logged)*, as well as firm status using an indicator variable for whether the firm was appeared at the top of the annual *Fortune’s Most Admired Companies* industry rankings. The Fortune rankings provide a strong measure of status perceptions as they are derived from annual surveys of executives and analysts who are asked to rank organizations within their industry (Bermiss, Zajac and King 2013). I hand-coded this variable from archived physical copies of Fortune Magazine. I also included additional governance variables such as the *percentage of shared held by management and CEO-chair duality* which takes a value of 1 when the CEO is also the chair of the board. These data were obtained from the MSCI ESG governance database, with missing values manually collected from the SEC Edgar database.

Consistent with prior research on corporate political activity (Masters and Keim 1985; Lenway and Rehbein 1991; Hillman 2003), I control for internal capabilities by including a set of

financial variables capturing resources available for political spending. These include logged *assets*, *sales*, *earnings* and *ROA*, which I obtained from Compustat. To account of the pace of change in the external environment, I include measures of industry political activity for each focal dependent variable using the average level of political spending in the firm's 2-digit SIC industry—industry average overall political expenditures, industry average lobbying expenditures, and industry average PAC expenditures. Whereas fixed-effects control for industry differences in regulation, these time-varying industry variables help account for regulatory changes prompting within-industry mobilization, as well as the diffusion of corporate political activities within industries. Table 1 provides summary statistics for all variables in the analysis.

Statistical Model

I used linear panel models with firm fixed effects to estimate *within-firm* effects over time. While the controls capture time-varying factors, the firm fixed effects control for any stable firm characteristics—including unmeasured characteristics—that may influence a firm's political influence expenditures. I include year fixed effects to control for macro-institutional environmental changes. I also use robust standard errors to address potential heteroskedasticity (Stock and Watson 2008). Finally, I lag the outcome by a year to allow sufficient time for newly appointed CEO's to implement their preferred political strategies.

Table 1. Descriptive Statistics and Correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. PAC Expenditures (Log)	3.056	4.91	1.00								
2. Lobbying Expenditures (Log)	4.340	6.21	0.70	1.00							
3. Overall Political Expenditures (Log)	4.907	6.26	0.81	0.94	1.00						
4. Has Business Roundtable Experience	0.045	0.21	0.23	0.23	0.21	1.00					
5. Count of Political Contributions (Log)	1.831	1.54	0.33	0.27	0.30	0.16	1.00				
6. Political Conservatism Index	5.867	2.90	0.06	0.00	0.03	0.00	0.12	1.00			
7. Has a Law Degree (J.D.)	0.079	0.27	0.07	0.05	0.06	0.02	0.11	-0.04	1.00		
8. Has a Business Degree (M.B.A.)	0.344	0.48	0.06	0.06	0.05	0.07	0.02	0.04	-0.14	1.00	
9. Female	0.031	0.17	-0.01	0.01	0.00	0.03	-0.04	-0.09	0.02	-0.02	1.00
10. Age	56.187	7.58	0.07	0.04	0.05	0.03	0.27	0.05	0.02	-0.06	-0.05
11. Has Fortune 500 Experience	0.145	0.35	0.42	0.39	0.39	0.29	0.24	0.02	0.03	0.06	0.01
12. Has Ivy League Degree	0.235	0.42	0.06	0.09	0.08	0.08	0.13	-0.06	0.08	0.26	0.01
13. CEO Tenure	7.295	7.26	-0.01	-0.02	-0.01	-0.02	0.23	0.04	-0.01	-0.08	-0.06
14. CEO Turnover	0.097	0.30	0.02	0.02	0.01	-0.03	-0.11	-0.02	0.00	0.02	0.04
15. Fortune's Most Admired Company	0.136	0.34	0.32	0.31	0.32	0.25	0.21	0.00	0.03	0.03	-0.01
16. Firm Age (Log)	3.128	0.69	0.30	0.25	0.28	0.15	0.17	0.08	0.06	0.06	0.01
17. % Outside Directors (10% units)	7.159	1.63	0.16	0.16	0.16	0.11	0.01	0.05	0.01	0.09	0.04
18. Institutional Blockholder Ownership	0.839	0.37	-0.05	-0.03	-0.04	-0.02	-0.04	-0.01	-0.02	0.00	-0.01
19. % Shares Held by Management (10% units)	1.394	1.97	-0.13	-0.14	-0.14	-0.09	0.02	-0.03	-0.02	-0.07	-0.04
20. CEO-Chair Duality	0.636	0.48	0.05	0.05	0.06	0.05	0.14	0.04	0.01	-0.02	-0.04
21. Assets (Log)	7.819	1.76	0.50	0.45	0.47	0.30	0.37	0.03	0.09	0.08	-0.01
22. Sales (Log)	7.361	1.629	0.51	0.49	0.51	0.31	0.31	0.05	0.05	0.06	0.00
23. Earnings (Billions)	6.424	20.057	0.33	0.31	0.30	0.30	0.18	0.02	0.02	0.02	0.02
24. ROA	0.033	0.330	0.01	0.02	0.02	0.00	0.01	0.00	0.01	0.00	0.00
25. Industry Avg. PAC Expenditures (Millions)	0.034	0.05	0.28	0.26	0.26	0.16	0.17	0.00	0.04	0.03	0.01
26. Industry Avg. Lobbying Expenditures (Millions)	0.468	0.64	0.26	0.28	0.27	0.14	0.15	-0.01	0.04	0.04	0.02
27. Industry Avg. Political Expenditures (Millions)	0.503	0.68	0.26	0.28	0.27	0.14	0.15	-0.01	0.04	0.04	0.02

Variable	10	11	12	13	14	15	16	17	18	19	20
10. Age	1.00										
11. Has Fortune 500 Experience	0.09	1.00									
12. Has Ivy League Degree	0.01	0.09	1.00								
13. CEO Tenure	0.45	0.00	0.06	1.00							
14. CEO Turnover	-0.13	-0.04	-0.02	-0.27	1.00						
15. Fortune's Most Admired Company	0.05	0.43	0.10	0.03	-0.01	1.00					
16. Firm Age (Log)	0.18	0.24	0.07	0.11	0.05	0.20	1.00				
17. % Outside Directors (10% units)	0.00	0.13	0.03	-0.09	-0.01	0.08	0.21	1.00			
18. Institutional Blockholder Ownership	0.02	-0.08	-0.02	0.04	-0.03	-0.04	0.04	0.08	1.00		
19. % Shares Held by Management (10% units)	0.02	-0.10	0.00	0.12	-0.03	-0.06	-0.16	-0.33	-0.02	1.00	
20. CEO-Chair Duality	0.13	0.08	0.04	0.16	-0.10	0.07	0.01	-0.01	-0.01	0.00	1.00
21. Assets (Log)	0.11	0.52	0.11	-0.02	0.02	0.43	0.33	0.18	-0.11	-0.23	0.05
22. Sales (Log)	0.10	0.59	0.09	0.00	0.04	0.51	0.39	0.18	-0.06	-0.16	0.06
23. Earnings (Billions)	0.06	0.45	0.06	-0.01	0.02	0.39	0.20	0.09	-0.11	-0.08	0.04
24. ROA	0.01	0.01	0.00	0.01	-0.02	0.03	0.02	0.00	0.03	0.00	0.02
25. Industry Avg. PAC Expenditures (Millions)	0.07	0.18	0.02	0.00	0.02	0.10	0.15	0.07	-0.01	-0.10	-0.01
26. Industry Avg. Lobbying Expenditures (Millions)	0.06	0.17	0.03	-0.01	0.02	0.07	0.13	0.08	-0.02	-0.10	0.00
27. Industry Avg. Political Expenditures (Millions)	0.06	0.18	0.03	-0.01	0.02	0.07	0.13	0.08	-0.02	-0.10	0.00

Variable	21	22	23	24	25	26	27
21. Assets (Log)	1.00						
22. Sales (Log)	0.81	1.00					
23. Earnings (Billions)	0.48	0.55	1.00				
24. ROA	0.04	0.07	0.02	1.00			
25. Industry Avg. PAC Expenditures (Millions)	0.25	0.25	0.24	0.01	1.00		
26. Industry Avg. Lobbying Expenditures (Millions)	0.22	0.24	0.24	-0.01	0.84	1.00	
27. Industry Avg. Political Expenditures (Millions)	0.22	0.24	0.25	0.00	0.86	1.00	1.00

RESULTS

Table 2 presents estimates from fixed-effects models predicting political activity expenditures in the following year (t+1). Consistent with prior theory relating corporate political activities to threats in the regulatory environment (Oliver and Holzinger 2008), I find significant and positive effects of average industry political expenditures on PAC spending and lobbying spending. Firms also spend significantly more on PACs and lobbying as their sales and assets grow, which further supports the dynamic capabilities approach.

Table 2. Fixed-Effects Regression Models of Logged Political Expenditures at t+1

	PAC	Lobbying	Overall
CEO Experiences and Values			
Has Business Roundtable Experience	0.406*** (0.103)	0.293* (0.144)	0.308* (0.132)
Has Law Degree (J.D.)	-0.449*** (0.089)	-0.366** (0.131)	-0.434*** (0.117)
Political Conservatism Index	0.007 (0.007)	0.016 (0.012)	0.029** (0.011)
Cumulative Political Contributions (Log)	0.071*** (0.018)	0.065* (0.027)	0.061* (0.025)
CEO Controls			
Has Business Degree (M.B.A.)	-0.058 (0.051)	-0.080 (0.082)	0.010 (0.074)
Female	-0.057 (0.118)	0.129 (0.173)	0.053 (0.162)
Age	-0.002 (0.004)	-0.011* (0.006)	-0.006 (0.005)
Has Fortune 500 Experience	0.311** (0.105)	0.360* (0.141)	0.253* (0.129)
Attended an Ivy League School	0.138* (0.054)	-0.019 (0.092)	0.041 (0.081)
Tenure	-0.010** (0.004)	-0.012* (0.006)	-0.013* (0.005)
Firm Controls			
CEO Turnover	0.001 (0.047)	-0.127 (0.074)	-0.138* (0.069)
Fortune's Most Admired Company	0.105 (0.075)	0.190 (0.108)	0.294** (0.095)
Firm Age (Log)	0.465*** (0.129)	0.144 (0.192)	0.536** (0.182)
% Outside Directors (/10)	-0.007 (0.013)	-0.024 (0.019)	-0.029 (0.018)
Institutional Blockholder Ownership	0.251*** (0.047)	0.264*** (0.069)	0.269*** (0.064)
% Shares Held by Mgmt (/10)	0.008 (0.014)	-0.013 (0.021)	-0.003 (0.021)
CEO-Chair Duality	-0.051 (0.036)	0.021 (0.053)	0.051 (0.049)
Assets (Log)	0.479*** (0.057)	0.694*** (0.086)	0.669*** (0.082)
Sales (Log)	0.205***	0.400***	0.436***

	(0.061)	(0.092)	(0.090)
Earnings (Billions)	0.003	0.010**	0.003
	(0.003)	(0.004)	(0.003)
ROA	-0.039	-0.015	-0.020
	(0.058)	(0.060)	(0.064)
Industry Avg. PAC Expend.	2.875***		
	(0.752)		
Industry Avg. Lobbying Expend.		0.274**	
		(0.104)	
Industry Avg. Overall Expend.			0.202*
			(0.094)
Constant	-4.101***	-4.675***	-5.469***
	(0.501)	(0.733)	(0.696)
Observations	26,038	26,038	26,038
Adjusted R2	0.853	0.768	0.805

Standard errors in parentheses; All models include controls as well as firm and year fixed effects.
 * p < 0.05, ** p < 0.01, *** p < 0.001

The results provide strong evidence that managerial cognition also shapes firms' political activities. Models 1-3 indicate that firms spend significantly more on both PACs and lobbying when they obtain a Business Roundtable CEO (H1). The effect is statistically and substantively significant, with overall political spending increasing by approximately 36% as compared to periods where the firm was run by a CEO without Business Roundtable experience.

H2 predicts that CEO legal training will reduce the political activities of the firm. The results strongly support this hypothesis—CEOs holding J.D. degrees significantly decrease PAC contributions and lobbying expenditures. Firms decrease their political activities by about 54% when led by legally trained CEOs as compared to periods where they did not have a CEO with legal training. The results are consistent with the view that legal training promotes deference to the law, with lawyers developing a view of firm political activities as morally illegitimate.

To test the effects of CEOs' political orientation, I now turn to the next two variables measuring aspects of managerial cognition. The coefficients for the CEO's cumulative number of political contributions (logged) is significant and indicates a positive relationship between their personal contributions and the political activities of the firm. The effect is significant for both PAC

contributions and lobbying spending, providing strong support for H4. The effect of CEO political conservatism is not significant in models separately predicting PAC and lobbying expenditures, but it is significant and positive in the combined model. Thus, the results support H3 and H4 and indicate a positive effect of CEO political orientation on firm political activities.

Table 3. The Moderating Effect of Internal and External Monitoring

	Lobbying	PAC	Lobbying	PAC
Has Business Roundtable Experience	-0.085	-0.029		
X % Outside Directors (/10)	(0.075)	(0.061)		
Has Law Degree (J.D.)	-0.021	-0.070*		
X % Outside Directors (/10)	(0.058)	(0.030)		
Political Conservatism Index	-0.001	0.001		
X % Outside Directors (/10)	(0.005)	(0.003)		
Cumulative Political Contributions (Log)	0.014	0.020**		
X % Outside Directors (/10)	(0.010)	(0.007)		
Has Business Roundtable Experience			0.222	-0.259
X Institutional Blockholder Ownership			(0.236)	(0.214)
Has Law Degree (J.D.)			-0.005	0.387*
X Institutional Blockholder Ownership			(0.221)	(0.169)
Political Conservatism Index			-0.008	0.026+
X Institutional Blockholder Ownership			(0.023)	(0.015)
Cumulative Political Contributions (Log)			-0.016	0.107***
X Institutional Blockholder Ownership			(0.043)	(0.031)
Lower Order Terms				
% Outside Directors (/10)	-0.041	-0.046*	-0.022	-0.007
	(0.039)	(0.023)	(0.019)	(0.013)
Institutional Blockholder Ownership	0.257***	0.249***	0.325*	-0.131
	(0.069)	(0.047)	(0.164)	(0.106)
Has Business Roundtable Experience	0.998	0.629	0.153	0.593**
	(0.623)	(0.508)	(0.233)	(0.212)
Cumulative Political Contributions (Log)	-0.033	-0.064	0.084+	-0.009
	(0.076)	(0.052)	(0.045)	(0.033)
Political Conservatism Index	0.021	-0.004	0.023	-0.014
	(0.039)	(0.024)	(0.023)	(0.015)
Has Law Degree (J.D.)	-0.207	0.078	-0.355	-0.739***
	(0.456)	(0.243)	(0.230)	(0.171)
Constant	-4.742***	-3.953***	-4.915***	-3.933***
	(0.763)	(0.510)	(0.734)	(0.502)
Observations	26,038	26,038	26,038	26,038
Adjusted R2	0.768	0.852	0.768	0.853

Standard errors in parentheses; All models include controls as well as firm and year fixed effects.
 + p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Table 3 presents fixed-effects models testing whether the effect of managerial cognition is moderated by levels of internal and external monitoring. Internal monitoring by outside directors significantly moderates the effect of logged cumulative political contributions and having a law degree. As the level of internal monitoring increases, the effect of managerial cognition intensifies—the positive effect of cumulative political contributions increases and the negative effect of having a law degree becomes more negative (model 2). This suggests that outside directors may be less involved and thus more malleable to CEOs' preferences about corporate political activity. Model 4 shows that the level of external monitoring significantly moderates the effects of CEO cumulative political contributions, legal education, and political conservatism (borderline significant). This is consistent with the positive main effect of institutional blockholders, which suggests that they advocate for greater political activity. However, the moderating effects of internal and external monitoring are only significant for models predicting PAC contributions, but not lobbying expenditures. These results provide some support for H5 and H6.

DISCUSSION

How do firms formulate their political strategies? In an era of rising economic inequality and elite capture over public policy, scholars have identified corporate political activity as a major blind spot for institutional theory, calling for research to examine organizational efforts at manipulating the regulatory environment (Hinings and Greenwood, 2002; Oliver and Holzinger, 2008; Barley 2010; Zald and Lounsbury, 2010; Hampel, Lawrence and Tracey 2017). This study has examined whether firms' political activities change under the leadership of different CEOs. Based on a longitudinal within-firm analysis of corporate political activities, I find evidence of

substantial managerial discretion, with managers drawing on prior experiences and values to make sense of corporate political activity. Firms intensify their political influence activities under the leadership of individuals who are more personally politically active, more ideologically conservative, or who have experience in the inner circle of business elites, whereas firms reduce their political activities under the leadership of legal professionals. Internal and external monitoring moderate some of these effects with blockholding institutional investors emboldening leaders pushing for greater corporate political activity, and outside directors exhibiting malleability in supporting leaders who make the case for either more or less corporate political activity.

Theoretical Implications

The findings have several important theoretical implications. First, the study advances the institutional change literature by identifying conditions that render firms most likely to attempt to shape their regulatory environments. Prior research has either theorized corporate political activities as a function of internal resources and the pace of environmental change (Oliver and Holzinger 2008), or focused on broader mobilization efforts outside the boundaries of individual firms (Useem 1986; Barley 2010; Mizuchi 2013). However, little empirical evidence exists to explain how individual firms' political activities change over time. This study begins to address this shortcoming, revealing how managerial cognition can affect the corporate political activities. In doing so, the findings draw attention to the role of multiple actors—specifically CEO's, outside directors and institutional investors—in interpreting the legitimacy of corporate political activity as an appropriate firm-level strategy.

Second, the study advances a view of organizations as vehicles of indirect elite influence. This is an important finding in an era where traditional channels of elite cohesion appear to have

fragmented. For example, the dense network of board interlocks that concentrated elite influence in the 20th century has disintegrated (Chu and Davis 2016), and CEO's no longer engage in unified mobilization to shape regulation as they did in the 1980's (Mizruchi 2013; Mizruchi and Marshall 2016). While these findings may appear at odds with concerns about elite capture of government in the 21st century (Bartels, 2008; Bonica et al, 2013; Gilens and Page, 2014), the present study suggests that in the 21st century, avenues for business elites' influence may be different than in the past. In the post-2000's era of declining collective action by business leaders, the present study identifies a novel source of elite influence—CEOs influence public policy through the individual firms that they lead. Although the influence of the inner circle may be waning at the level of external field-level mobilization, the findings identify organizations as persistent vehicles of indirect elite influence.

Finally, I contribute to research on managerial cognition identifying several novel individual-level factors that affect firms' political strategies. Theories of strategy formulation emphasize the role of managers' values and experiences in matching internal capabilities to external opportunities (Hambrick and Mason 1984; Eggers and Kaplan 2013). This study extends these insights by showing how these individual-level imprinting processes (Marquis and Tilcsik 2013) also affect the strategies that firms use to manipulate their institutional environments. This opens up new avenues for understanding the formulation of non-market strategies, suggesting that managerial cognition effects a wider range of organizational outcomes than have been previously considered.

By calling attention to firm-level political activities as a mechanism of institutional change, the study aims to lay a foundation to begin addressing two limitations of institutional theory. First, examining corporate political activities can allow us to focus on institutional change that produces

large-scale inequality. Although inequality has been a central focus for scholars of institutional change, empirical studies have largely focused on how actors change informal institutions—beliefs, norms and values—examining ‘bottom-up’ change efforts led by non-profit and hybrid organizations aiming to address the needs of their local communities (Battilana, Leca and Boxenbaum, 2009). However, this research does not consider the more nefarious forms of institutional change that are often led by powerful elites, and which generate broader patterns of inequality (Hempel, Lawrence and Tracey 2017).

Second, examining corporate political activity may allow future research to provide insight into the dynamics of institutional change exercised by elites who wield considerable power and influence. This is in stark contrast to the “bottom up” focus of the most institutional change studies, which tend to focus on actors who occupy relatively peripheral positions in the field (Hempel, Lawrence and Tracey 2017). Institutional change efforts by nongovernmental organizations (Mair, Martí and Ventresca 2012) and hybrid organizations (Battilana and Dorado 2010), are likely to require a different set of influence tactics as compared to well-resourced and highly-connected elites. Although scholars of institutional change have recognized that individual actors’ social positions can influence the repertoire of resources and tactics they have available to them (Maguire, Hardy and Lawrence 2004; Boxenbaum and Battilana 2005), we can expect elite actors to be more effective in pushing for the most divergent forms of change because of their unique access to what Zald and Lounsbury (2010) refer to as command posts—centers of societal power that regulate, oversee, and maintain social order.

Limitations and Future Directions

While the study indicates that CEO's with Business Roundtable experience tend to intensify the political activities of the firms they lead, it does not take on the more complex task of examining alignment between Business Roundtable policy goals and firm policy goals. It is difficult to examine the issue of elite unity on policy goals from lobbying and campaign contribution data. This is because differences in campaign contributions may reflect differences in strategy rather than policy goals. For example, many business PACs donate to both Democrats and Republicans in order to hedge their bets and maintain access to policymakers regardless of affiliation (Clawson and Neustadtl 1989). Moreover, lobbying efforts tend to be directed towards firm-specific issues, which are difficult to link to cross-industry elite policy goals. This is why Mizruchi and Marshall (2016) suggest that scholars begin examining the issue of elite cohesion using qualitative research focused on specific mobilization efforts. This is an important issue for future research to examine, with institutionalists being particularly well positioned to understand political mobilization efforts given the literature's focus on processual accounts of change.

Another limitation is that there could be time-varying unobservable factors that affect firms' decisions to select particular kinds of CEOs. For example, it is possible that in advance of increasing or decreasing PAC and lobbying expenditures, firms hire CEOs that they believe are well suited for achieving this planned change in the firms' corporate political activities. However, this seems unlikely since qualitative research on CEO selection has shown that hiring decisions are primarily made on the basis of past performance and celebrity (Khurana 2004). Although I controlled for a range of time-varying factors as well as unobserved stable factors using fixed-effects, I did not have an instrument to exploit exogenous sources of variation. Future research should consider alternative designs that can provide even stronger causal identification.

Finally, while the paper calls attention to organizations as vehicle of indirect elite influence, more research is required to examine the historicity of this phenomenon. I do not argue that managerial cognition shapes corporate political activities more powerfully than it has in the past. Since my data does not cover the pre-2000 period of elite cohesion, I can only show the effects of managerial cognition in the contemporary (2000-2017) period. This is a significant contribution, especially since organization scholars have documented the decline of elite cohesion during this same period. However, given the limitations using a post-2000 sample, I avoid making claims about whether business elites exert more influence as compared to in the past. Future research should explore period effects to understand historical shifts in the determinants of corporate political activities.

Organizational theory has given much attention to how environments shape organizations, but has relatively little to say about how organizations shape their environments (Barley 2010). Yet, firms do not simply acquiesce to regulatory constraint, a point that critics argue has been overlooked as institutionalists focus on change efforts initiated by peripheral—rather than elite—actors. In order to uncover the dynamics of institutional change, much greater attention must be paid to the interface between organizations, business elites, and government. The present study has found substantial CEO discretion in corporate political activities, identifying several sources of managerial cognition that shapes firms' efforts at manipulating their regulatory environments. In an era that has seen a fragmentation of the corporate elite, the findings identify powerful organizations as indirect vehicles of elite influence. With scholars across the social sciences raising concerns about elite capture and rising inequality in the US, it is more important than ever to understand political action by and through organizations.

CONCLUSION

This dissertation has consisted of three independent chapters, each of which focus on a different contentious practice that threatens individual and organizational reputations. The first chapter examined flexible work policies, contentious practices which can harm individual reputations by raising suspicions about dependability and commitment. I used in-depth field research during an office redesign at a large company to understand the role of physical space on employees' use of flexible work policies. I found that a reconfiguration of physical space intended to reduce costs had the unintended consequence of disrupting taken-for-granted social practices, with employees feeling less pressure to demonstrate work devotion through 'face time', and increasing their use of flexible work policies.

The second chapter focused on organizational misconduct, a contentious practice that can harm a variety of stakeholders. I explored whether performance pressure affects managers' willingness to resort to illegal activity. Strain theory proposes that performance below aspirations increases the risk of illegal activity by triggering a problemistic search for solutions to improve performance. Yet extant cross-sectional studies have found inconsistent and often contradictory results. Using a within-firm (fixed-effects) analysis of S&P1500 firms between 2000-2017, I provide much stronger empirical support for strain theory. I also find that firms' response to performance pressure depends on whether they have internal legal capacity for managing risk, as well as the level of litigation risk in the industry which affects the likelihood of detection. Underperforming firms are most likely to engage in proximate forms of misconduct which are subject to short-term managerial discretion as compared to distal forms of misconduct that tend to arise from carelessness or complexity. The study builds on the strain theory of organizational

misconduct, providing a more nuanced understanding of when and how performance strain is most likely to manifest in particular kinds of illegal activities.

Finally, the third chapter explored corporate political activity, a contentious practice involving efforts to align public policy with the interests of the firm. I examine how S&P1500 firms' lobbying efforts and campaign contributions change over time, calling attention to the role of managerial cognition. I show how CEO's experiences and values affect their use of corporate political activity, potentially through beliefs of lobbying and campaign contributions as a morally illegitimate practice or a legitimate non-market strategy. Using a longitudinal fixed-effects analysis of within-firm CEO changes, I find considerable evidence of managerial discretion. I also show how features of corporate governance moderate some of these effects.

These studies advance our understanding of contentious practices, and the reputational threats that accompany them. The first two chapters emphasize how risk perceptions affect decisions to engage in contentious practices. For example, in Chapter 1 employees were more likely to use flexible work policies when the physical space was structured in a way that obfuscated their daily movements, making it difficult for colleagues and managers to know when they arrived at the office, left the office, or worked from home. Similarly, in Chapter 2, managers were more likely to resort to misconduct to improve performance when they perceived the risk of getting caught, as proxied by the industry litigation rate, was lower. Finally, Chapter 3 suggests considerable variation in how managers can perceive particular contentious practices. CEO's educational experiences, political orientations, and prior group memberships were shown to shape their willingness to engage in corporate political activity. The dissertation suggests that engagement with contentious practices can be shaped by risk perceptions, as well as beliefs about the legitimacy of the practice.

There are several future directions that this work points towards. First, how do physical spaces affect employee efforts to manage interpersonal boundaries? Another finding from my field research in Chapter 1 was that employees often experience unwanted interruptions to their task activities because they want to be perceived as dependable and committed, and hence avoid overtly refusing requests from others. The findings suggest that the physical space may affect employee discretion over the timing and duration of social interaction, by providing material and symbolic resources to signal availability and restrict access from others. This has important implications for how employees build strong reputations for themselves as team players, while tactfully evading unwanted interaction in order to manage their work time.

Another interesting question is how firms' reputations might affect managerial responses to performance strain. It is possible that managers may be able to use a strong reputation as a resource to buffer against short-term performance expectations. On the other hand, research on reputation suggests that high-status firms may experience heightened performance pressure due to the prominence of their actions in their industry and in the media. We may therefore expect high-status firms to be more likely to resort to misconduct when underperforming, as compared to their low-status counterparts. Future research should more carefully examine the ways that firm reputations affect performance pressure and whether they encourage tendencies towards a short-term focus.

Finally, future work should consider the shareholder responses to corporate political activity. Corporate lobbying and campaign contributions are often criticized for exacerbating inequalities by aligning public policy to corporate interests rather than the public good. Yet, we know little about how organizations respond to activist demands for greater transparency around a contentious practice. Prior research has focused on activist demands for firms to abandon the

contentious practice entirely. This work has emphasized the effectiveness of disruptive tactics such as protests and boycotts which gain concessions by disrupting reputations and resources (Ingram, Yue and Rao 2010; Soule, Swaminathan and Tihanyi 2014; McDonnell and Werner 2016). By contrast, activist demands for greater transparency do not require the targeted firm to abandon the contentious activity, but instead draw attention to their use of the practice. These subtler tactics are often used by insiders such as shareholder activists, and attempt to discourage use of contentious practices by heightening investor risk perceptions (Eesley, Decelles and Lenox 2015). This case of shareholder activism offers an interesting future direction for research on corporate political activity.

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Chapter 2

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