

A Bailout for the Outlaws:

**Interactions Between Social Control Agents and the Perception of Organizational
Misconduct**

Rasmus Pichler

University of Cambridge

Thomas J. Roulet

University of Cambridge

Lionel Paoella

University of Cambridge

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Abstract

When organizations engage in misconduct, social control agents play a crucial role in sanctioning them to show the enforcement of societal norms and reduce the risk of future deviance. We study the interaction between the government and the media, two key social control agents, in the evaluation organizational misconduct. While past work has focused on the influence of the media on the government, we theorize the influence of the government on the media. The government is a social control agent with supreme formal authority to punish misconduct, and thus its actions are of particular interest to the media in their evaluation of misbehaving organizations. However, the government, tied by conflicting demands, sometimes turns a blind eye to misconduct and supports misbehaving organizations for the greater societal good, instead of punishing them. How is the media's perception of misbehaving organizations affected by such government reactions? We explore this question by looking at the case of the 2008 government bailout of investment banks in the US, after those were caught red-handed for their involvement in the sub-prime financial crisis. Carrying out a content analysis of newspaper reporting (2007-2011), we show that the negative perception of investment banks and their misconduct is attenuated when they receive government support. Our work contributes to the emerging literature on the social construction of organizational misconduct and illuminates the interaction between government and media in the evaluation of behavior as organizational misconduct.

Keywords: Misconduct, social control agents, government, media, social construction of deviance.

SOCIAL CONTROL AND THE PERCEPTION OF ORGANIZATIONAL MISCONDUCT

A social constructionist view on organizational misconduct recognizes that what is misconduct depends upon the evaluation of organizations' behavior by audiences. From this view, organizational misconduct is defined as behavior that is labelled by outside evaluators as crossing the line between right and wrong. Those outside evaluators are conceptualized as social control agents, that is, actors which represent "a collectivity and can impose sanctions on that collectivity's behalf" (Greve, Palmer, & Pozner, 2010, p. 56). Social control agents have authority to label behavior as misconduct and play the "institutional role" of assessing whether organizations have crossed the line between right and wrong (Clemente & Gabbioneta, 2017, p. 287). As such, social control agents' punishment of misbehaving organizations serves to signal the enforcement of societal norms to the public and aims to reduce the risk of future deviance (Erikson, 1961; Garland, 1991).

An important implication of the social constructionist view is that organizations' behaviors can be judged by multiple social control agents and that those judgements can vary between social control agents and over time (Greve et al., 2010; Palmer, 2012). However, past research has paid limited attention to the link between social control agents' respective evaluation of a misconduct, and its role in the social construction of misconduct (Greve et al., 2010). Multiple social control agents' evaluations of what is right and wrong might relate to each other: what is evaluated as a misbehavior by one social control agent may be ignored or judged differently by another, and different social control agents may interact with each other in this process.

Two key social control agents that interact in the evaluation of misconduct are the government and the media. These two social control agents are fundamentally different in nature. Government organizations hold formal authority to sanction organizations for misbehavior: they can make credible claims to represent the interest of the general public – often backed up by formal political procedures that provide them authority (Shymko et al.,

Forthcoming) – and can levy significant punishment on organizations (Greve et al., 2010; Palmer, 2012). In contrast, while media organizations can make claims to represent the general public as well, these claims are not formally validated and media have no formal authority to impose sanctions (Palmer, 2012; Clemente & Roulet, 2015). However, due to their public agenda setting power, the media can influence other social control agents' enforcement behavior by drawing attention to behavior that may cross the line between right and wrong (Clemente, Durand, & Porac, 2016; Greve et al., 2010).

On this basis, current literature offers a preliminary understanding of how government and media evaluations of misconduct relate to one another. It suggests that media and government are “linked in stable interdependencies” (Palmer, 2012, p. 256). The media can uncover behavior that is potentially wrongful and disseminate information about this behavior to different audiences in the public sphere (Deephouse & Heugens, 2009). To do so, the media actively interprets information and frames the behavior as normatively questionable through the production of news stories, calling for other social control agents to punish misbehaving organizations (Clemente et al., 2016). The media thus make accusations of misconduct, which are triggering events for the social construction of misconduct and the involvement of other social control agents (Faulkner, 2011; Roulet & Pichler, 2020). When the media thus create a situation – through the generation of scandal and negative reporting (Adut, 2005; Roulet, 2020) – in which a potential misconduct becomes public knowledge, this puts pressure on the government to scrutinize the organizations involved in this behavior (Greve et al., 2010). The government then springs into action to investigate the behavior and, if it is evaluated to cross the line between right and wrong, formally sanction the organizations engaged in it (Palmer, 2012).

Thus, the relationship between media and government as conceptualized in current literature amounts to a clear division of roles between these social control agents: the media

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uncover and draw attention to potential misconduct, whilst the government, picking up cues from the media, investigates and imposes formal sanctions. Overall, in this conceptualization there is therefore the implicit assumption that media reporting comes first, followed by enforcement by the government (Fisse & Braithwaite, 1983). Furthermore, the key action through which the state executes its social control function is to investigate and punish, whereas the key action through which the media executes social control is through raising accusations of questionable behavior. The relationship between the media' and the government's evaluations of potentially wrongful behavior is thus unidirectional, flowing from the media towards the state, from media accusation to state investigation and punishment.

However, the media's role in the evaluation of suspected wrongdoing will often continue to evolve after the state has taken action, moving on beyond initial accusations. Here, the media may in fact pick up cues from the actions of the government and generate further evaluations of the potential misbehaving organizations under scrutiny. Furthermore, the range of actions through which media and government contribute to the labelling of behavior as wrong or right may also be broader than only media accusation and government investigation and punishment.

First, governments need to answer to multiple and often conflicting demands (Palmer, 2012). They can be embedded in a network of relationships with deviant organizations and some of their interests may lie with those organizations, which makes punishment counterproductive from the government's perspective. More specifically, building on conflict theory (Black, 1998), Greve et al. (2010) argue that governments act to protect both the interests of powerful groups in society and those of the state itself. Therefore, misconduct might be voluntarily ignored by the government in the defense of powerful interests and the greater good or societal stability (supporting those "too big to fail"), which is aligned with the

interest of the state itself. As such, the government may not always investigate and punish organizations suspected of wrongdoing. Rather, the government may engage in a different form of social control: directly supporting organizations suspected of misconduct, rather than punishing. Whereas investigation and punishment indicate that the government evaluates the suspected organizations as likely to be wrongdoers, government support for an actor that could be judged as deviating from the norm by some, may signal the intention to ignore or even forgive a potential misconduct.

Second, if the government ignores potential misconduct and supports some suspected organizations instead of formally punishing their behavior, this is then in turn likely to generate subsequent media evaluations of those misbehaving organizations. Governments are social control agents whose actions are of particular interest to the media and likely to influence subsequent media perceptions of potential misconduct. That is because governments represent a supreme authority with formal sanctioning power that sets formal norm enforcement within wider society (Shymko et al., Forthcoming). The media's reaction to government actions toward misbehaving organizations is of key importance for how these organizations and their potentially illicit practices are perceived by other audiences in society. Beyond the risk of penalties incurred by the state, misconduct can also generate adverse reputational consequences for deviant organizations from stakeholders and exchange partners, which then refrain from transacting with these organizations (Alexander, 1999; Greve & Teh, 2016). Media evaluations of suspected organizations are essential for such stakeholders to receive and interpret information used in forming these reputational judgements. The media can thus "impose public scrutiny and humiliation, which is a form of sanction" (Greve et al., 2010, p. 57) and, beyond that, even trigger social movement mobilization against an organization (King, 2008). The media thus have informal sanctioning power against organizations, which is another form that they exert social control that goes

beyond their initial role of creating misconduct accusations and triggering governments to act. Furthermore, media and public opinion are closely related (Carroll & McCombs, 2003; Gamson & Modigliani, 1989) and play a strong role in the deinstitutionalization of practices (Clemente & Roulet, 2014; Gümüşay et al., 2021), which makes the media evaluation of misbehaving organizations particularly important to understand the way contested and potentially illicit practices fall into abeyance.

Therefore, in this study we extend the conceptualization of the relationship between media and government social control. In particular, we focus on the so-far underexplored direction from the state towards the media: the effect that government support towards misbehaving organizations has on the evaluation of those organizations by the media. How will the media react to the actions of the state? How do the actions of the state as a social control agent with high formal authority affect perception of the potentially misbehaving organizations by the media? By focusing on these questions, our study – in combination with prior literature – hints at the idea that the overall relationship between media and government in the social construction of misconduct is recursive: they mutually influence each other. Figure 1 illustrates this relationship between government and media and differentiates the focus of previous literature from that of our study. Considering how state social control influences media social control we also put focus on additional ways through which social control agents contribute to the social construction of misconduct: not only government investigation and punishment, but also government support of potential wrongdoers; not only media accusation of wrongdoing, but also subsequent media evaluation of potential wrongdoers.

Insert Figure 1 about here

We study how government support influences media evaluation of potentially misbehaving organizations on a sample of US banks during and in the aftermath of the financial crisis (2007-2011), of which some received bailout support from the government to survive, despite being accused of engaging in a plethora of potentially wrongful practices that contributed to the financial crisis (Roulet, 2019; 2020). We look at how the tenor of media evaluation in core newspaper outlets was affected by this action of the state towards the accused organizations. We show that negative media evaluations decreased with government support of the potentially misbehaving banks, and increased again when banks exited the support program. Our study provides exploratory evidence that the support of and link with government social control agents can positively influence other social control agents such as the media. Beyond contributing to a systemic perspective on the social control of deviance (Roulet & Pichler, 2020; Roulet & Bothello, 2021), we also further the constructionist perspective on organizational misconduct.

THEORETICAL BACKGROUND

We contend that it is important to consider a wide range of actions by the media and the government as representing their social control function and contributing to the social construction of misconduct. This is because the social construction of misconduct is triggered in situations, such as after a media accusation, in which there is considerable ambiguity about whether a targeted behavior transgresses the line between right and wrong (Palmer, 2014; Roulet & Pichler, 2020). Any form of cues for audiences to evaluate whether this line is transgressed is crucial. Thus, in such situations, the media and government act as social control agents through their informal and formal authority to adjudicate norms in society and any cues they can give by positioning themselves towards this behavior. Their actions

towards accused organizations are interpreted as endorsement, condemnation and everything in between, and are consequently constitutive of the social construction of misconduct because: they provide signals about the normative status of the suspected wrongdoers.

Whereas media social control starts with drawing attention to potential misconduct through accusations, it continues with subsequent media evaluation – for example, with negative coverage of accused organizations, indicative of norm violations (Roulet, 2015). And whereas government social control surely includes investigation and punishment, indicative of norm violations, the government may also exert social control in the opposite direction, through support of accused organizations, which can instead signal that the targeted actors are norm adhering. Such signal is in particular interpreted by other social control agents such as the media. All these actions are ways in which the government and the media acts as social control agents, because, under conditions of normative ambiguity, they contribute to the evaluation of the suspected organization as a wrong- or rightdoing organization.

Support of misbehaving organizations by the government

Social control agents are driven in their enforcement of norms by multiple motives, which leads to the existence of both punishment and non-punishment for misconduct (Greve & Teh, 2016; Roulet & Pichler, 2020). Therefore, after media draw attention to potential misconduct through accusation and call on government organizations to impose sanctions, governments might not always follow this call, as they balance multiple motives for punishment.

First, governments may be motivated to protect particularistic interests of those organizations that are more powerful than others, e.g., organizations which control resources that are valuable to the government and with which it is embedded in networks of influence and exchange (Correia, 2014; Greve et al., 2010; Karpoff, Lee, & Vondracik, 1999; Yu & Yu, 2011). This leads to reduced punishment of these organizations for misconduct by the

government. Second, governments are motivated by a “broad interest to safeguard the welfare of their constituencies” (Palmer, 2012, p. 254), the people. Thus, the government will indeed often visibly punish organizational misconduct that harms the public, in order to defend the public from these behaviours and demonstrate the importance of adhering to norms to the public (Garland, 1991; Palmer, 2012). However, governments may also be in a situation where they perceive a contradiction between the punishment of wrongdoers and the protection of social welfare: if punishment of wrongdoers itself could endanger overall social system stability. This happens when wrongdoing organizations are classified as themselves being integral to system stability, which may be due to their size and/or role in a sector that is important for societal functioning. Examples of such organizations could be companies that represent national prosperity and are closely aligned with national identity – such as Volkswagen in Germany or Airbus in France – or big financial institutions that provide stability to the financial system and are thus “too big to fail” (Moosa, 2010).

Punishment of such organizations for misconduct could potentially cause even more harm than their initial misconduct, and their delegitimization through being labelled by the government as wrongdoers could spill over to a wider delegitimization of part of the social system (Clemente & Gabbioneta, 2017). Overall, governments may thus see social welfare endangered by punishment of certain organizations for misconduct. As a result, governments will refrain from punishing such organizations, even after media have already accused such organizations of misconduct. Instead, governments will voluntarily ignore their potential misconduct, thus providing these organizations with indirect support, and might also provide them with direct support aimed at ensuring their survival. Such direct support can consist of material support and resources, as well as explicit endorsement of the organizations’ conduct and purpose.

In sum, government social control agents have a two-fold motive that may lead them to support organizations after media have called out their potential misconduct: to protect the interests of powerful organizations and to protect social welfare. If misbehaving organizations are both powerful and important for social system stability, then government incentive to support misbehaving organizations is particularly strong, and the government is likely to ignore their misconduct and provide them with direct support (the “too big to fail” argument).

Influence of government support of misbehaving organizations on media evaluations

Evaluations of potential organizational misconduct by different social control agents are inevitably linked. We theorize that when the government supports a misbehaving organization, the media will adjust its evaluation of that organization. Hereby, based on existing literature about the key role of the media in calling out misconduct, we assume that an initial negative judgement of the potentially misbehaving organization has already been formed by the media in the process of launching an accusation of misconduct. That is, the media has already provided an initial evaluation of the organization as potentially violating norms. The government, however, has reacted to this not by confirming this evaluation of norm violation through punishment, but rather by instead supporting the accused organization. From this starting point, we are interested in how media will change their negative evaluation of a misbehaving organization after it receives government support.

We theorize that support of the state affects the media’s perception of ambiguity around whether an organization’s behavior was a misconduct. Previous research has shown that in the evaluation of organizational misconduct, there is considerable ambiguity with regards to the moral status of the behavior under scrutiny (is it morally acceptable or not) and who bears responsibility for it (Roulet & Pichler, 2020). In observing the behavior of

complex organizations, the media will have difficulty evaluating it (Greve & Teh, 2016). In other words, there will be ambiguity for audiences to evaluate whether organization's behavior constitutes a clear misconduct. Under this condition of ambiguity, media form initial judgements about potential misconduct, which they disseminate through their reporting and framing of behavior as an accusation. However, subsequently, the media may update those initial judgements based on actions by the government. The media will pay particular attention to the actions of the government because of its formal authority to set norms within society as well as adjudicate and punish norm violations. Therefore, when the government reacts towards an organization under suspicion of misconduct by supporting this organization instead of punishing it, the media will interpret this cue as implying the targeted organization's behavior is socially acceptable. The government's reaction to the misconduct and the move towards supporting a misbehaving organization therefore contributes to reducing the initial ambiguity around the potential misconduct. Upon observing this, the media may partly update its evaluation of a misbehaving organization. In reaction to this, the media will itself provide signals about its updated evaluation to the wider society, in the form of reporting more positively about misbehaving organization's behavior, indicating that ambiguity around its moral status has been partly resolved.

Further, next to potentially reducing moral ambiguity around the misbehaving organization's behavior as such, we theorize that support by the state may also serve to bolster the legitimacy of the transgressing organization as a whole. This effect may separately contribute to the media's evaluation of the organization as a norm violator. Understanding legitimacy to refer to the generalized perception of an organization as adhering to societal norms means that even if individual behavior by an organization remains morally ambiguous, the organization overall may still be seen as legitimate by audiences (Suchman, 1995). Therefore, irrespective of whether media fully interpret government support of a

transgressing organization as resolving moral ambiguity around the potential misconduct, such support by the state can signal to the media the overall legitimacy of the transgressing organization (Certo, 2003). The very fact that the government supports a transgressing organization shows that the government considers this organization as important for the larger societal context and trusts it to adhere to the norms and expectations valid in this context, i.e., considers it legitimate. Compared to the transgressing organization itself attempting to bolster its legitimacy, such an outside signal of legitimacy by an actor that is itself highly legitimate is likely to be vastly more effective (Ashforth & Gibbs, 1990). In a sense, government support transfers legitimacy from the government to the transgressing organization (Dobrev, Ozdemir, & Teo, 2006; Phelps, 2014; Verhaal, Hoskins, & Lundmark, 2017). Therefore, the transgressing organization is imbued with additional recognition of its overall morality, independent of individual transgressions. This will support less negative media judgements (Zavyalova, Pfarrer, Reger, & Shapiro, 2012). The media integrates the generalized perception of the organization's appropriateness within society in its subsequent evaluation. Media "connect audience members by creating a common knowledge about events" (Roulet & Clemente, 2018: 328), and they will integrate the signal sent by other actors about a targeted organization and make sense of it for broader audiences. They will therefore report more positively about a misbehaving organization after it receives government support, indicating that the organization overall is less deviant than previously assessed, if not redeemed, because of its exoneration by the state.

Taken together, state support of a misbehaving organization can reduce the moral ambiguity around its behavior and bolsters that organization's overall legitimacy. For the media, this action by the government may thus appear tantamount to the state releasing the organization from its guilt for misconduct. This calls into question the initial evaluation of the media and its accusation that the organization had committed misconduct. Interpreting this

signal by the government and incorporating it into its own evaluation leads the media to reduce its negative coverage of that organization. We therefore hypothesize:

Organizations accused of misconduct but receiving government support are perceived less negatively by the media, compared to accused organizations that do not receive such support.

The social construction processes around the organizational misconduct have thus evolved from the initial accusation through continued interactions between the government and the media as social control agents. Because the government and the media have authority within society to make normative judgements (Shymko et al., Forthcoming), their actions towards an accused organization contribute to how the actors' targeted actions are perceived, and ultimately how they can be construed into misconduct. And because the media is aware of the government's role in this process, it adjusts its own reporting based on the signal of government support or condemnation – there is overall convergence in the perception of what is a misconduct and who are the misbehaving actors in the longer run. Looking beyond the scope of our hypothesis and analysis, we see government-media interaction as one step in the process of social construction of wrongdoing. For example, it is possible that the media's less negative reporting towards the misbehaving organization could then be seen as absolving the organization from suspicion of wrongdoing by other audiences in society, leading the social construction process to a settlement (Roulet & Pichler, 2020). By contrast, the controversy around the accusation could continue if the organization's behavior remains morally ambiguous or its acceptability is questioned by other selected audiences (Shymko et al., Forthcoming).

EMPIRICAL APPROACH AND FINDINGS

Empirical context

We explore the impact of state support on negative media perception by investigating the case of the 2008 Government bailout of banks in the United States (the Troubled Asset Relief Program or TARP). This event was a consequence of the subprime mortgage crisis that began in the summer of 2007, and directly followed major collapses of investment banks in September 2008. The key trigger of the subprime mortgages was the financing of household debt by mortgage-based securities, whose risk was poorly evaluated. The poor credit quality of those securities and the consequential massive defaults progressively spread to the financial sector, which brought about significant disruption in the financial markets and economic confidence, setting the stage for a great recession.

Although a number of causes to the financial crisis were identified, and the responsibilities of multiple actors such as governments, regulators and credit rating agencies were pointed out, banks were considered as the main culprit and explicitly accused of misconduct in relation to the financial crisis. In particular, the media targeted a number of typical practices in the field, accusing the banks of misconduct because of how these practices conflicted with social norms (Roulet, 2019). These practices included the payment excessive variable bonuses, excessive risk-taking, and organizational cultures of greed (Roulet, 2015). Further, the process of securitization¹, an important product innovation in finance that many banks engaged in, was linked to the opacity of investment banks and used to explain the difficulties to assess the risk of subprime mortgages. Financial institutions were heavily indebted and used those funds to place a risky bet on subprime mortgages, while they were moving part of their assets in a shadow banking system where they could hide assets and liabilities and bypass regulations regarding capital ratios (Financial Crisis Inquiry Commission, 2011). In this context, media depicted the wrongness of these practices, linking

¹ Pooling different financial products under one tradable umbrella to mitigate the risk.

them to the causes of the financial crises and calling out banks on their potentially wrongful behaviors (Roulet, 2019).

Overall, the major US banks were accused of misconduct in the media for the organizational practices listed above and their contribution to the financial crisis. However, while in this context government action would have been traditionally expected to tackle and punish misconduct of these banks, the government did not react in this way. Rather, it had to deal with more pressing issues: saving the financial system from a domino effect. The bankruptcy of Lehman Brothers in September 2008 had created greater instability, shifting the attention towards the additional risk for the global and national economies generated by the difficulties of the financial sector. Beyond Lehman Brothers, other banks were now “too big to fail”. The government needed to not only protect the stability of the financial system, but also its overall social acceptance, which would have been severely endangered if almost all its major players had been punished by the government, thus eroding trust in society’s economic institutions. In addition, major banks were powerful organizations with considerable ties to parts of the government. Therefore, both the interests of the powerful and the interest of preserving social welfare conjointly influenced the government, leading it to provide support to the misbehaving banks to ensure their survival. That is what motivated the bailout or Trouble Asset Relief Program (TARP) in October 2008. This program was aimed at entering the capital of banks to calm down febrile markets. Eight of the biggest banks accepted to receive funds, with the biggest banks such as Citigroup, or Bank of America receiving up to USD 45 billion in two instalments (October 2008 and January 2009). Most of those banks repaid the government in the 2009-2011 period. Some banks refused to participate (for example, Piper Jaffray) and some decided to leave the TARP program early by repaying their debt as early as they could. In total, 8 out of the 26 biggest US banks received government support through this program.

After such a large-scale incidence of questionable practices with media accusations of wrongdoing and considerable economic harm caused, the government would have been the social control agent with the requisite authority to punish the involved organizations. Such punishment would have clearly contributed to constructing the banks' behavior as misconduct. However, the government instead supported the banks to preserve the stability of the social system and save them from the bankruptcy that had already swallowed Lehman Brothers. The government thus provided the opposite reaction, showing its support for some of the potentially misbehaving banks, thus calling into question whether their behavior really constituted a misconduct. The government here acted as a social control agent, because in a situation where the social construction of misconduct was underway after media accusations, it showed strong support for the banks. In this study, we look at the impact of this support on the subsequent media evaluation of the banks.

Methods

To carry out our analysis and test our hypothesis we rely on a longitudinal dataset of the 26 major U.S. banks from 2007 to 2011, which was collected as part of a larger project (Roulet, 2019).² Our level of analysis is at the bank-quarter level to capture fine-grained changes in media perception. For our dependent variable of media perception, we collected a sample of all articles from the New York Times, the Washington Post and the Wall Street Journal, mentioning the 26 biggest banks in the U.S. over 16 quarters. We used Factiva with a search command looking for the name of those banks in online and print articles in the three outlets. In line with our conceptual focus on how media evaluation changes after the media initially levied an accusation of wrongdoing, we focus on negative media coverage of the misbehaving banks as our outcome of interest. Following previous research (Zavyalova et al.,

² In contrast with the analysis in Roulet (2019), which is at the IPO-bank level and was focused on syndicate invitations, our unit of analysis is the dyadic bank-quarter.

2012), we used the Harvard Psychosocial Dictionary to capture the negative coverage in our three newspaper outlets. This approach parsed the textual corpus to count words associated with negative emotions, based on a dictionary with a total of 345 words or roots of words (e.g. arrogance, envy, guilt, pathetic, violent, etc) with negative valence. We took the total number of words invoking a negative emotion about a focal bank in each quarter. This variable represents how the media evaluate each bank's action as proxied by its coverage, and in particular, we argue that a negative evaluation captures whether the bank is transgressing norms. Through these evaluations, after the initial accusations of misconduct, the media continued to act as a social control agent toward the accused banks, providing updated and regular signals through its coverage of how it judged their behavior with respect to societal norms (Clemente & Roulet, 2015), thus contributing to the social construction of the banks' as misbehaving or well-behaving. The range of negative coverage in our sample was between 4 and 2430 negatively-valenced words written about a given bank in a given quarter, illustrating that negative coverage varied considerably between banks and over time. Since we are using an absolute measure of negative coverage, we also control for the overall coverage of each bank in terms of total words in articles about the bank for a given quarter, and for the total number of emotion-related words in articles about the bank (both words with negative and positive valence).

We have two main independent variables. The first one is a continuous variable representing the amount of preferred stock purchased by the government as part of the TARP (labelled as *Preferred Stock Purchased*) at that point in time (for example, in January 2009, in particular, Citi and Bank of America received further support from the state), and thus captures the support offered by the state to the banks in a fine-grained way. The second independent variable is a dummy that equals one once a bank has repaid its bail-out debt to the government and exited the TARP. Banks like Morgan Stanley, JP Morgan or Bank of

America repaid early, for example. Considering exit from the bail-out program – next to participation in it – is important as exit could affect media perception in two opposing ways: (i) it could further reduce the negative perception of banks as it shows an appropriate relationship with the supporting government, further bolstering the government’s positive support signal by showing that a bank has a sane, even and continued relationship as it repaid its debt; (ii) or, on the contrary, it could increase the negative media perception of the supported banks again, as it denotes the end of the government-support relationship that the bank enjoyed, thus ending the positive signal associated with this relationship.³ As we had no a-priori theoretical reason to hypothesize about the effect of exit from government support one way or the other, we left this as an empirical issue.

We also use a number of control variables, which may affect the coverage that a bank receives from the media. Our control variables include US assets as a proxy for size, 7 dummies for each business line in which the bank can be involved (e.g., wealth management, retail), the number of offices in the US, the Carter Manaster measure of reputation (Carter & Manaster, 1990), two measures of performance on the IPO market (amount of share issued, and rank over the last four quarters), and period-fixed effects. As disturbances in time period t are likely to be correlated with those in the time period $t-1$, we used a model with autoregressive correction (xtregar in STATA) with a random effect specification (Baltagi & Wu, 1999). In the analysis, the independent and control variables were lagged by one quarter (i.e., we measured negative coverage, the dependent variable, and emotional and total media coverage, which are control variables at time $t+1$, all other variables were captured at time t).

Results

³ We are grateful for the editor and an anonymous reviewer for pointing out this alternative explanation.

Table 1 shows the summary statistics and correlations between our variables and Table 2 shows the results of our analysis. Table 2 shows our analysis with our two core independent variables: a continuous variable capturing the extent of government support (the preferred stock purchased by the government) and one binary variable depicting the exit from the bailout program by the focal bank. The coefficient of that former variable is negative and statistically significant ($b = -1.59$, $SE = 0.58$), indicating that extent that banks have received government support through the TARP are evaluated less negatively by the media. The binary variable capturing banks repaying the government exhibits a positive and significant coefficient ($b = 55.49$, $SE = 18.87$), indicating that when banks cut ties with the government to exit the TARP program, their negative evaluation goes up again. Overall, our results show that state support tends to attenuate negative media coverage for misbehaving banks and that severing this tie bring back negative evaluations. We can conclude that the media scrutinize the link between potentially misbehaving organizations and the government through government bailouts, and that when the link is present they factor it positively in their evaluation of misbehaving organizations.

Insert Tables 1 & 2 about here

DISCUSSION

In this study, we have shown that the media's negative perception of misbehaving organizations was strongly affected by the reaction of state social control agents. We focused on the empirical context of the aftermath of the subprime crisis (2007-2011) during which investment banks were initially accused by mainstream media as having misbehaved (Roulet, 2019). In our case, our findings show that subsequently banks received less negative media

evaluations if the government provided them with support in the form of bailout money. This boost faded away when banks cut their ties by repaying the government for its support by exiting the TARP program.

Contribution to the Literature on Organizational Misconduct

Our main contribution to the literature on organizational misconduct was to examine the relationship between different social control agents. Our aim was to explore how media perception of misbehaving organizations is influenced by support from the state, thus better understanding the interaction of different social control agents in the evaluation of organizations' behavior as misconduct. We argued that the state may be motivated to refrain from punishing misbehaving organizations and instead even support them, in order to protect powerful interests and overall social welfare. This support by the state of a transgressing organization influences the media to alter their own judgement of the transgressing organization. The effect we demonstrated is thus characterized by one social control agent altering its negative judgement of an organization after the organization was evaluated positively by another social control agent. In a sense, non-punishment by one social control agent diffuses to other social control agents through this effect, even if those social control agents were sanctioning the misconduct before, as the media were through their initial negative evaluation of banks in the financial crisis (Roulet, 2019). Such finding calls for a systemic approach to dealing with misconduct, acknowledging the interdependencies between actors' evaluations and behaviors at different levels of analysis, especially in context of disruption and uncertainty (Roulet & Bothello, 2021; Forthcoming).

Overall, we have explored how government social control affects media social control in the evaluation of misconduct. This further suggests that interactions between social control agents are crucial to unveil the consequences of organizational misconduct, especially when

one of those agents are the media (Clemente et al., 2016; Clemente & Gabbioneta, 2017). Boundaries can be manipulated to determine and construct what is misconduct, by both social control agents and misbehaving organizations themselves (Muzio, Faulconbridge, Gabbioneta, & Greenwood, 2016). The complexities of those interactions suggest misbehaving organizations may even have leeway to influence the behavior of social control agents by triggering their heterogeneous motives for punishment, and recent theoretical work shows they can engage in blame games to avoid responsibility (Roulet & Pichler, 2020). An interesting implication of our work is the possibility that the government may be involved in such blame games or even determine them – for example, in our empirical context the early bankruptcy of Lehman Brothers coupled with the subsequent government support for other banks could be interpreted as scapegoating one misbehaving actor to concentrate the blame on it, which then enables the support of other misbehaving actors and overall system stability (Guénin-Paracini & Gendron, 2010).

On the basis of our work, future research could further explore the existence and functioning of social control agent interactions in the punishment of organizational misconduct (Greve & Teh, 2016). We outline three research directions that emerge from our study. First, social control agent interaction as we conceptualized it in our study happened through the state supporting a misbehaving organization, after the organization was blamed for misconduct by the media. However, this could also happen in the other direction: if an organization is punished for misconduct by the state, subsequent media coverage may support it (Roulet, 2020) – for example, by framing the behavior in question as technically illegal but not immoral, or by accusing the state of erroneously punishing an organization. Second, the focus of our study was one specific direction of influence – the government’s influence on the media. Combining this with what we already know about the state—media relationship from prior literature, we overall suggest that there may be recursive, mutual influence

between the media and the government: not only may the media induce the state to react to misconduct by publicizing it, but the state's reaction in turn may induce the media to alter its own assessment of the misconduct (see Figure 1). Building on this idea, future research could explore the elements of this recursive process together, tracing how government and media social control might influence each other in different dynamics over time, e.g., amplifying, reducing, or reversing the punishment of misbehaving organizations. Lastly, and more broadly speaking, in the misconduct literature we still know very little about the interactions of social control agents in the labelling of behavior as wrongdoing and the implications of one organization being judged by multiple social control agents through different normative standards (Palmer, 2012). Here, our study highlighted a specific interaction between government and media, as two key types of social control agents. Building on this, there is ample opportunity to research the relationship between state, media, and other important social control agents such as NGOs or professional associations, with the aim of building a picture of the ecology of social control agents that surround judgements of misconduct.

Contribution to the Literature on Social Evaluations and Public Opinion

Our study also contributes to the emerging literature on social evaluations and public opinion (Roulet, 2020) and stress the importance of the insider-outsider divide (Paolella & Syakhroza, 2021). We unveil the dynamic nature of social evaluations of misbehaving organizations and the complex processes driving those evaluations. Public opinion strongly drives the evaluation of misbehaving organizations by social control agents (Roulet & Pichler, 2020), and especially the media (Clemente & Gabbioneta, 2017). Importantly, both public opinion and those evaluations can then drive the outcome of misconduct, whether it is punishment or, in our case, non-punishment and support. We expand the assumption that social evaluations depend on how actors' behavior are perceived as aligned or deviant from norms (Clemente & Roulet, 2014; Syakhroza, Paolella & Munir, 2019; Roulet, 2020) as we argue that social

control agents play a unique role in affecting this perception. We also flesh out the important nature of exogenous events, such as financial crises, in shaping the perception of behaviors (Pozner, Mohliver, & Moore, 2019). Our study further explores the idea that entire professions can be perceived as misbehaving and their social evaluation relies on how those professions deviate from norms (Gabbioneta, et al., 2019; Roulet et al., 2019) and how social control agents influence this perception (Roulet, 2019).

Limitations and Boundary Conditions

Our study also is subject to several limitations and boundary conditions. First, our findings might be to some extent idiosyncratic to the phenomenon observed. The broader context is known to strongly affect the perception of misconduct (Bianchi & Mohliver, 2016). The support of misbehaving organizations by the social control agent, in this case, was unprecedented. We can imagine that such a large effort to support deviant organizations is quite rare, and by contrast, many such efforts may be very localized on one misbehaving actor (e.g., when the Eurogroup, the European Central Bank and the International Monetary Fund supported Greece in the aftermath of the 2009 financial crisis (Freire, Lisi, Andreadis, & Viegas, 2017)). Second, the TARP itself and its broader purpose was perceived in various ways by the media. For some it was a form of state intervention supporting deviant organizations, for other it was the only way to save the economy. This mixed perception might have affected the way the banks that received this bailout were perceived. A fine-grained analysis could look at the perception of the TARP as a whole by the different media and how it might affect the perception of the affected bank. In addition, we use a traditional measure of negative emotions with a broad scope of overall negative valence of media evaluation (e.g., Zavyalova et al., 2012) but existing work has sometimes focused on capturing more specific, fine-grained aspects of the media's evaluation (cf. Roulet, 2019). We did not deal with endogeneity or selection issues: we can imagine that the worst offenders

were also likely to need the most significant amount of support. Future research could more comprehensively account for the scale of the misconduct affecting the interdependencies between different social control agents. Lastly, also inherent in our measure of negative media evaluation is the fact that we were not able to measure whether the reduction in negative coverage for banks that received government support was only temporary or of a more permanent nature.

CONCLUSION

Our work contributes to the emerging literature on the social construction of organizational misconduct and the role of social control agents in this process. In particular, we advance our understanding of the relationship between media and social control agents when it comes to the evaluation of misconduct. While it has been assumed that media reports preceded action by governments, we contend that media are also strongly influenced by the behavior of the latter. Governments can ignore misconduct and support misbehaving organizations when the survival of those deviant organizations is crucial to society, which is interpreted positively by the media and reduces negative media judgements. This government—media interaction helps deviant organizations rebuild their social evaluations, and those organizations have in fact very little incentive to correct their course of action: recent research has shown that banking practices have only suffered very marginal changes in the aftermath of the financial crisis (Shlomo, Eggert, & Nguyen, 2013; Roulet 2019).

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Table 1: Descriptive statistics and correlation between study variables

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8
1. Negative Coverage	307.006	382.291	4.00	2430.00	1.00							
2. Reputation	6.417	4.516	-9.00	9.00	0.28	1.00						
3. Assets	5.24e+05	6.71e+05	29.60	2.36e+06	0.60	0.20	1.00					
4. Offices	29.551	18.040	1.00	50.00	0.09	-0.10	0.33	1.00				
5. Performance 1	7410.816	7031.721	0.00	42728.68	0.58	0.26	0.67	0.23	1.00			
6. Performance 2	20.637	30.584	1.00	219.00	-0.29	-0.31	-0.53	-0.21	-0.47	1.00		
7. Exited the TARP	0.062	0.241	0.00	1.00	0.10	0.12	0.49	0.16	0.29	-0.14	1.00	
8. Preferred Stock Purchased	2.999	9.491	0.00	45.00	0.46	0.15	0.71	0.35	0.26	-0.19	0.36	1.00

Table 2: Results of regression analysis with autoregressive correction

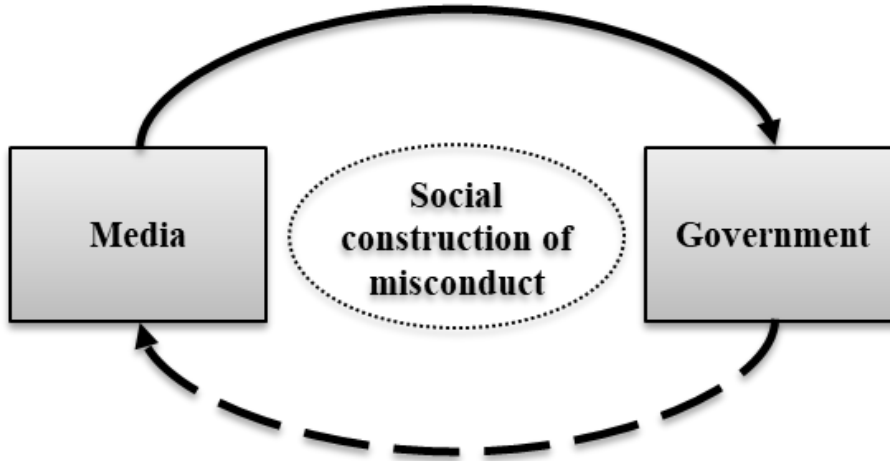
VARIABLES	Negative coverage
Preferred Stock Purchased	-1.588*** (0.580)
Exited the TARP	55.493*** (18.872)
Assets	-0.000** (0.000)
Offices	0.856** (0.334)
Performance 1	-0.001 (0.001)
Performance 2	-0.114 (0.423)
Total Coverage	-0.000*** (0.000)
"Emotional" Coverage	0.310*** (0.005)
Reputation	-0.354 (1.021)
Commercial Banking	-1.134 (30.349)
Sales/Trading	-51.083** (21.952)
Research	24.205 (18.817)
Retail	9.253 (31.496)
Asset management	-15.858 (17.715)
Wealth management	-34.279** (14.818)
Constant	56.063* (29.434)
Period fixed effects	YES
Wald Chi2	12 624.07
Observations	416
Number of banks	26

Standard errors in parentheses;

*** p<0.01, ** p<0.05, * p<0.1 (two-tailed)

Figure 1: Relationship between media and government in socially constructing misconduct

- Media: accusation of misconduct
-> *triggers government*
- Government: investigation and punishment



- Government: actions (incl. support) towards accused organizations
-> *triggers media*
- Media: evaluation of accused organizations

Key: ———> focus of prior theory - - -> focus of our study