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ORGANIZATIONS AND ETHICS:

**ANTECEDENTS AND CONSEQUENCES OF THE ADOPTION AND
IMPLEMENTATION OF THE ETHICS AND COMPLIANCE OFFICER
POSITION**

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OFFICER POSITION**

by

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The University of Texas at Austin, 2011

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As open systems, organizations interact with their environments and respond to laws, norms, and other pressures to conform in search of societal legitimacy. Organizations, however, are far from uniform in their responses to institutional pressures. As entities with idiosyncratic sets of values and prior experiences, organizations act according to a mix of established patterns of behavior and perceived self-interest. One result may be conformity in adoption, but variance in implementation. This is particularly true of issues such as ethics, where ambiguous and evolving definitions of expected behavior encourage organizations to respond with varying degrees of substance. This dynamic environment is made more complex by pressures that ebb and flow in wave-like patterns of intensity as societal attention coalesces around specific events and then

dissipates. This study examines how firms respond to shifts in pressures for greater ethical behavior by appointing an Ethics and Compliance Officer (ECO), from 1990 to 2008. In particular, I demonstrate that, while firms make adoption decisions in response to broad, field-level forces, it is firm-specific factors that determine resource commitments in implementation. I also test the hypothesis that an organization's implementation decisions are consequential, with greater benefits gained by firms that commit more resources to the ECO position. As such, this study identifies important antecedents and consequences of adoption and implementation behavior that help explain organizational heterogeneity in the face of institutional pressures to conform.

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Introduction

The study of how firms respond to calls for greater ethical behavior has a long history in organization theory (Lentz & Tschirgi, 1963). In spite of these early beginnings, however, while studies appear from time-to-time (Hosmer, 1994; Stevens et al., 2005; Sullivan et al., 2007; Weaver et al., 1999b) and there is some theoretical work (Donaldson & Dunfee, 1994; Gatewood & Carroll, 1991; Jones, 1995; Jones et al., 2007), empirical research, especially at the organizational level of analysis, is largely absent from the field's top-tier journals.

As a result of this lack of attention, there is much that we still do not know about how organizations respond to institutional pressures to be more *ethical*. This gap in our knowledge is compounded because, in recent years, firms have faced increasing calls for greater ethical (Donaldson, 2003) and socially responsible (Margolis & Walsh, 2003) behavior. While these pressures have resulted in much activity, however, it is unclear to what extent organizations have fundamentally altered the way they operate, with some activities being labeled as mere “window dressing.”¹ If true, this suggests a number of questions: What characteristics determine how organizations respond to these pressures for greater ethical behavior? In addition, when are firms motivated to adopt ethical practices and which firms are more or less likely to implement such practices substantively? Alternatively, what motivates symbolic action in relation to ethics? Do organizations gain from such symbolism, or are there negative consequences for firms that underestimate societal calls for change?

¹ Hannah Clark, ‘Chief Ethics Officers: Who Needs Them?’ *Forbes Magazine*, October 23, 2006, http://www.forbes.com/2006/10/23/leadership-ethics-hp-lead-govern-cx_hc_1023ethics.html

Creating the position of an Ethics and Compliance Officer (ECO) is one way in which organizations can act to signal their attendance to stakeholder concerns regarding ethical behavior without necessarily committing significant amounts of resources.² An ECO is responsible for coordinating an organization's ethics program. In general, this entails monitoring voluntary activities in relation to criminal and regulatory compliance. Specifically, ECOs write the organization's ethics code, conduct ethics training for employees and senior executives, deal with all inquiries and complaints reported to the ethics helpline, and report levels of compliance and related ethics issues to the Board of Directors.

While ethics, in general, has received relatively little attention from macro organization researchers, however, the ECO position has been virtually ignored.³ As such, in spite of widespread adoption of the position among Fortune 500 firms,⁴ along with anecdotal evidence to suggest that some ECOs receive insufficient resources to do their jobs effectively,⁵ there is much that we do not know about how organizations approach the issue of ethics, in general, and the ECO position, in particular. In order to correct these gaps in our knowledge, I argue that understanding when and why firms are likely to act more or less substantively in relation to institutional pressures for greater ethical behavior should be an area of interest for organization researchers.

² Hannah Clark, 'Chief Ethics Officers: Who Needs Them?' *Forbes Magazine*, October 23, 2006, http://www.forbes.com/2006/10/23/leadership-ethics-hp-lead-govern-cx_hc_1023ethics.html

³ See Weaver, Trevino, and Cochran (1999a, 1999b) for the only study on the ECO position that I could identify in the top-tier management journals.

⁴ The Ethics and Compliance Officer Association (ECOA) estimates that, today, 85% of the Fortune 500 firms have adopted the ECO position.

⁵ 'Leading Corporate Integrity: Defining the Role of the Chief Ethics & Compliance Officer (CECO),' *Ethics Resource Center*, January 2008, <http://www.ethics.org/resource/ceco>; Lisa Roner, 'Ethics officers—Positions that need power,' *Ethical Corporate Magazine*, October 4, 2007: <http://www.ethicalcorp.com/content.asp?ContentID=5411>

INSTITUTIONAL THEORY AND ORGANIZATIONAL HETEROGENEITY

Explaining differences in organizational action and outcomes is of central importance to organization theorists. Variance is particularly interesting when analyzing responses to the same environmental pressures. What causes different organizations to respond in different ways to the same stimuli? To what extent are organizations able to act independently in pursuit of their perceived interests and to what extent are they constrained by the context in which they operate? Are organizations able to act as a result of the willful intentions of managers who choose among different strategic options, or are organizations buffeted from action to action, continually responding to forces in their environment over which they have little, if any, control? Although this debate regarding the sources of action has moved back and forth between rational and natural, open and closed perspectives within organization theory (Baum & Rowley, 2002; Scott, 2003), researchers continue to seek to understand when, and under what conditions, organizations are more likely to converge or diverge in relation to specific actions (D'Aunno, Succi & Alexander, 2000; Meyer, Gaba & Colwell, 2005; Miner, Haunschild & Schwab, 2003; Srinivasan, Haunschild & Grewal, 2007).

Initially, neoinstitutional theory presented organizations as tending towards homogeneity within an organizational field (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Drawing on the work of Berger and Luckmann (1967) and on ideas related to structuration (e.g., Giddens, 1979; 1984), neoinstitutional theorists argued that the environmental context within which organizations operate forms a socially-constructed framework that constrains the range of possible action. As institutional forces continue to exert influence over organizations, practices were expected to diffuse and converge on accepted norms (Baron et al., 1986; Greenwood & Hinings, 1996). This convergence is based on the recognition that actions that conform to the societal

expectations that constitute this framework enable the organization to maintain the societal legitimacy necessary to ensure long term survival (Dowling & Pfeffer, 1975; Parsons, 1956a; Suchman, 1995).

Critics, however, noted that these initial pronouncements produced a theory that focused on exogenous, rather than endogenous, sources of change (Covaleski & Dirsmith, 1988; Hirsch & Lounsbury, 1997; Perrow, 1985). An overly-socialized framework limited the theory to explaining diffusion and reproduction, while ignoring the potential for conflict and heterogeneity that results from the proactive role organizations play in shaping their external reality. In response, researchers began to investigate organizational interests and agency as sources of change (DiMaggio, 1988; DiMaggio & Powell, 1991; Leblebici et al., 1991; Powell, 1991).

In particular, theories of strategic choice began to compete with neoinstitutional theory's structural perspective (Goodstein, 1994; Ingram & Simons, 1995; Oliver, 1991) in an attempt to demonstrate that "strategic choice is the critical variable in a theory of organizations" (Child, 1972: 15). Oliver (1991), in particular, presented a direct challenge to the structural perspective by stating explicitly that an organization's response to institutional pressures is a matter of agency. By highlighting the "willingness and ability of organizations to conform" as the central determinants of action, Oliver (1991: 159) presented the firm as a more rational actor and the institutional environment as a contingency that, in certain circumstances, can be ignored. Oliver's framework was supported by Goodstein (1994) and extended by Ingram and Simons (1995). The danger in focusing too heavily on actor interests, however, is that it minimizes neoinstitutional theory's important contribution in explaining why organizations, at a macro level, often conform to societal expectations and taken-for-granted norms (Greenwood & Hinings, 1996). If an institutional pressure is merely one of many factors that an organization

considers and chooses among, the force of the institutional argument at the field level is diminished.

As a result of these competing explanations of firm behavior, while it is recognized today that the environment is an important component of understanding organizational action (Meyer & Scott, 1983; Scott & Meyer, 1994) and that organizations can act proactively to further their own interests (Child, 1972; Oliver, 1991), it is less clear under what circumstances organizations act independently and when environmental conditions constrain and force action (Lounsbury, 2007). Expanding our knowledge of these complex cause-effect relationships in response to specific institutional forces remains a fruitful area for organizations research.

In order to try and resolve this debate between structural and agentic explanations for behavior, researchers have conceptualized organizations as actors that pursue their perceived interests while operating within a broad, institutionally-defined framework (Barley, 1986; Barley & Tolbert, 1997; Greenwood & Hinings, 1996; Hirsch & Lounsbury, 1997; Ingram & Clay, 2000; Kraatz & Zajac, 1996; Stinchcombe, 1997; Westphal & Zajac, 1994). Three approaches, in particular, are prominent. One approach is to identify the presence of structural moderating factors that allow agency to emerge. Goodrick and Salancik (1996: 1), for example, demonstrate that, while “institutions are primary and exist as the context within which interests operate. ... uncertainty provides discretion.” The degree of uncertainty allows organizations the freedom to define what compliance with stakeholder demands means in practice (Edelman, 1992). A second approach, which highlights agency as the driver of action, distinguishes between substantive action and symbolic action that signals conformity to broader societal expectations (Zajac & Westphal, 1995). And a third approach combines agency and structure in a two-stage diffusion model, with early adopters acting in search of technical

gain via customization and later adopters pursuing the legitimacy benefits associated with isomorphism (Westphal et al., 1997).

Common to these approaches is the implicit distinction between firm adoption and firm implementation behavior. While the *adoption* of a position, for example, is essentially a dichotomy (firms either adopt or they do not), *implementation* is continuous (firms implement more or less than others) with location on this continuum indicative of commitment to that position (Lounsbury, 2001). Organizational responses to institutional pressures to conform, therefore, consist of at least two separate decisions—the decision to adopt is separate from the decision regarding the extent of implementation. The distinction allows firms to do one thing, while saying another, although decoupling is only one of many possible responses that range from more to less substantive.

In spite of this important work, significant gaps remain in our understanding of firm adoption and implementation behavior. For example, while we know a great deal about *why* firms adopt (how practices and policies diffuse through a population), we know much less about *when* they adopt (patterns of behavior that vary among firms over time). In addition, in spite of the implicit distinction between adoption and implementation in prior research, these two constructs are often confounded, both theoretically and empirically. As a result, while recent work suggests that the motivations driving action are more complex than previously theorized (Kennedy & Fiss, 2009; Lounsbury, 2007), there is much that we still do not understand about how firms implement the practices they adopt and the possible consequences of these actions (Ansari et al., 2010; Weber et al., 2009).

I seek to help fill these gaps in the literature by identifying separate antecedents of adoption and implementation at different levels of analysis to explain both firm homogeneity (why firms may converge over time by adopting the same practice) and

firm heterogeneity (the extent to which the adopted practice is implemented more or less substantively). In particular, I argue that because adoption is a relatively visible act, it is more easily deployed as a signal to external stakeholders and likely to be driven by broad, field-level forces. Implementation, on the other hand, is much less visible to external monitoring and is therefore more likely to be determined by factors specific to the firm. While, ultimately, there may be little variance in adoption behavior across firms as a policy or practice diffuses through a population, there is likely to be variance in terms of when firms adopt. There is also likely to be substantial variance in implementation as firms respond to pressures for change by committing higher or lower levels of resources as a function of their idiosyncratic context and perspective. I also argue that these actions are likely to be consequential, with both technical and institutional benefits gained by firms that commit more resources to the policy or practice.

In addition, I hope to add to the growing body of work that supports a more dynamic view of institutions. Current explanations for the influence of institutions are relatively static and, as such, explain only part of the story (McAdam & Scott, 2005; Suddaby, 2010). For example, institutional theory conceptualizes the relationship between time and organizational action through a dichotomous lens, arguing that early adopters of a specific practice or policy adopt for economic reasons, while later adopters tend to act as a result of uncertainty for mimetic institutional reasons, believing conformity will increase their social legitimacy (Tolbert & Zucker, 1983). While early adopters tend to demonstrate their technical appreciation of a practice by customizing it to suit their needs, later adopting organizations are more likely to accept an off-the-shelf version (Westphal et al., 1997). It is not clear, however, that this early/late dichotomy accurately explains the empirical reality (Kennedy & Fiss, 2009; Lounsbury, 2007). Institutions are dynamic—they grow, stagnate, and decline in influence; they are created

and replaced as alternatives emerge; and they conflict, with different pressures rising to influence behavior for different actors, in different ways, at different points in time (Barley & Tolbert, 1997; Hinings et al., 2004). In this study, I argue that their influence on organizational action is not linear, but ebbs and flows as expectations evolve and coalesce and different institutional actors are prompted into action. As a result, the different interpretations and responses of actors to the same institutional stimuli will often result in different actions and outcomes. Being able to capture this interactive relationship among organizations and the environmental pressures that define the boundaries within which decisions are made would constitute a valuable contribution to our understanding of why organizations respond at different points in time in different ways to evolving institutional pressures.

Central to both of these arguments is a *diachronic* perspective (Barley & Tolbert, 1997) that explains both organizational behavior and the force of institutions as functions of their prior experiences, behaviors, and historical contexts, rather than relying on a *synchronic* perspective that focuses on the interaction between cause and effect at a single point in time. Such a perspective assumes that actors do not approach every decision they make devoid of context or knowledge, but are products of the cumulative effect of their prior actions and experiences that then, in part, determine subsequent actions.

Specifically, I argue that a significant determinant of how organizations respond to institutional pressures is their profile of values, characteristics, and prior experiences (Clark, 1972; Greenwood & Hinings, 1996; Selznick, 1957; Suddaby et al., 2010a). While the aggregate effect of multiple institutions defines the parameters within which socially-acceptable action is taken, organizations are actors that respond in different ways to a given institutional pressure in the areas over which they have direct control. It may

well be, for example, that organizations express their values not in the adoption of a specific practice or policy (which is visible and, therefore, more likely to be institutionally determined), but in the extent of its implementation (which is more likely to be firm-specific and can range from the comprehensive to the superficial). Over time, however, specific patterns of behavior emerge that become predictive of future action. While resulting from individual choices made in response to specific stimuli, such patterns ultimately constrain the organization, “making it hostage to its own history” (Selznick, 1992: 232). In presenting this perspective, this study identifies antecedents of organizational responses to institutional pressures and demonstrates that the nature of that response is consequential.

In doing so, this study makes three broad contributions. First, it contributes to our understanding of the relationship between field-level forces and firm actions by investigating how shifts in institutional pressures influence adoption behavior at different points in time. Specifically, I develop a theoretical framework that suggests institutional pressures ebb and flow in wave-like patterns, with different firms responding at different times to the evolving intensity of these forces. Second, I argue it is firm-specific forces, rather than broader institutional logics, that are more likely to explain variation in implementation (cf. Lounsbury, 2001, 2007). While logics exist and frame the broad environment in which firms operate, the detail of day-to-day implementation is determined at the level of the firm. And, third, I demonstrate that these implementation decisions are consequential for firms across a range of outcome measures.

In making these contributions, this study addresses the question: How do we explain organizational heterogeneity in the face of institutional pressures to conform? Given that institutional stimuli exist and given that organizations adapt their formal structure in response, what factors explain when firms adopt new positions and the

variation we see in the extent of implementation? This study helps explain different kinds of organizational behavior by investigating both field-level and firm-level sources of change, and also measuring the effects of that change. It does so by extending the debate between structure and agency within organization theory to the context of organizational ethics.

ORGANIZATIONS AND ETHICS

The issue of ethics presents a promising empirical context in which to study the theoretical issues raised in this study because, while calls for greater ethical and socially responsible behavior among organizations have been growing for a number of years, there remains less certainty regarding what it means for an organization to be *ethical*. I suggest that this confusion is likely to lead to greater variance in when firms adopt and how they implement the ECO position because the uncertainty presents the opportunity to construct the social reality of conformity (Edelman, 1992). As Goodrick and Salancik (1996: 2) argue:

It is not until institutionalization is contested or incomplete that the question of why organizations respond differentially to institutional pressures becomes pertinent and interests and agency become a potential explanation.

Uncertainty in the environment is likely to generate inconsistency within the organization and, therefore, variance in terms of adoption and implementation across organizations. As organizations navigate this uncertainty, created either by conflict between institutional demands and the technical goals of the organization or conflict among different institutional demands, the potential arises for a gap between the symbolism of formal structure and the substance of operations (Meyer & Rowan, 1977). For example, while some firms may remain unconvinced of the value or relevance of

ethics, but still seek the legitimacy associated with the appearance of conformity, other firms may already feel sufficiently ethical, with adoption providing an opportunity to signal their past performance in this respect to stakeholders. In either case, it may be that institutional pressures force firms to respond at face value with a symbol, while they retain greater control and vary over the extent of the substance of implementation. As such, I argue that, while adoption is determined by field-level forces, implementation is more likely to be firm-specific and determined by the organization's set of values, prior experiences, and patterns of behavior.

Extending the debate between action and structure within organization theory to the context of ethics, therefore, carries the potential for an important contribution to the field. As noted above, in spite of sustained evidence that firms face increasing calls for more and better ethical and socially responsible behavior, there has been little empirical research that focuses on these issues in the top management journals. In addition, although there is a substantial literature within the management field that has investigated the question of why firms adopt (how practices and policies diffuse among organizations), there is still much to learn about when firms adopt and how they implement. In order to better explain organizational heterogeneity in the face of institutional pressures to conform, this paper hypothesizes that, while institutional pressures lead organizations to signal the appearance of conformity by adopting the ECO position at particular moments in time, it is an organization's values, prior experiences, and patterns of behavior that determine the extent of implementation of the position. I also hypothesize that the extent of implementation among organizations varies over time in response to waves of institutional pressures to conform and that this behavior is consequential. The hypothesized relationships I test in this study are presented in Figure 1.

Insert Figure 1 here

These theoretical questions are tested using data gathered from a survey of the organizational members of the Ethics and Compliance Officers Association (ECO) that adopted the ECO position from 1990 to 2008. In terms of identifying specific antecedents and consequences of organizational implementation, this study focuses on the commitment of valuable and scarce resources granted to the ECO position. These resource commitments can range from more substantive (with a significant budget, a large number of employees, and frequent access to the CEO and Board) to less substantive (with a small budget, minimal staff, and little or no access to the firm's executives and board members). It is this range of possible action that forms the central variable of interest in this study.

In addition to this introduction, this paper is divided into six main sections. First, I examine the emergence and evolution of both the ECO position and the ECOA, which describes itself today as “the largest group of business ethics and compliance practitioners in the world.” Following that, I review the literature on adoption and implementation, and discuss the main variable of theoretical interest in this study—the *extent of implementation of the ECO position* by an organization. Then, I motivate my hypotheses, which identify important antecedents of the timing of adoption and extent of implementation of the ECO position, and test the theory that firms' implementation decisions are consequential. In the section that follows my hypotheses, I detail the methods of this study (the different variables and the data sources I draw on to operationalize them). In the penultimate section, I detail the statistical methods I use to test my hypotheses and present the results. Finally, I discuss the contributions I believe

this study will make and their implications for organization theory, in general, and institutional theory, in particular.

Ethics and Compliance Officers

The modern-day ethics profession in the U.S. traces its roots back to the Watergate scandal and the Congressional hearings that were held in its aftermath. While ethical issues related to business (such as workplace health and safety, labor laws, environmental pollution, and consumer rights) existed prior to this period and resulted in legal standards to which firms were expected to comply, the Congressional investigation into illegal payments made during Watergate focused attention on the unethical actions of individual employees acting on behalf of their organizations.⁶ In addition to payments made to the Committee to Re-elect the President, “more than 150 publicly traded companies [such as Lockheed, Northrop, and Gulf Oil] admitted that they had been involved in questionable overseas payments or outright bribes to obtain contracts from foreign governments.”⁷ In total:

More than 400 corporations have admitted making questionable or illegal payments. The companies, most of them voluntarily, have reported paying out well in excess of \$300 million in corporate funds to foreign government officials, politicians, and political parties. These corporations have included some of the largest and most widely held public companies in the United States; over 117 of them rank in the top Fortune 500 industries.⁸

⁶ While the consumer rights movement also raised instances of unethical behavior by executives and corporations, and at an earlier stage, books such as Ralph Nader’s *Unsafe at Any Speed* (1965) focused more narrowly on specific issues or industries than the Watergate hearings, which tackled broader issues across the spectrum of firms.

⁷ Philip Mattera, ‘The New Business Watergate: Prosecution of International Corporate Bribery is on the Rise,’ December 18, 2007, <http://www.corpwatch.org/article.php?id=14859>

⁸ U.S. Department of Justice, House of Representatives ‘Unlawful Corporate Payments Act of 1977, Report 95-640, September 28, 1977, <http://www.justice.gov/criminal/fraud/fcpa/history/1977/houseprt-95-640.pdf>

These revelations emerged on top of a series of corporate ethics transgressions during the 1960s and 1970s (LeClair et al., 1998) and encouraged the U.S. federal government to legislate to improve the ethical behavior of U.S. firms. Similar legislative efforts had been made in the past, but the common thread tying together much of the legislation passed at this time was the desire of the Federal Government to hold organizations accountable for the actions of their employees. In addition to punishing the individual for any criminal act, an effort was now made to ensure that the organization also shared responsibility.

One example of legislation that emerged from this period was the Foreign Corrupt Practices Act (1977), which made it illegal for officers of U.S. firms to bribe government officials of foreign governments and punished transgressions with maximum fines of \$1mn and prison sentences up to five years.⁹ Another example of government stimulated reform was the Defense Industry Initiative (DII) on Business Ethics and Conduct (1986). The DII emerged out of a recommendation from a commission appointed by Ronald Reagan and, although it was practitioner led, was heavily influenced by the reliance of participating firms on government contracts (Boatright, 2003). As such, the DII was a major step forward in establishing the issue of ethics as something that firms should take seriously. It established specific minimum standards for business ethics and conduct among government contractors and is credited with creating a framework of ethical good practice that was eventually emulated across industries (LeClair et al., 1998).

The most important of the efforts initiated during this period to improve ethical behavior among firms, however, was the Sentencing Reform Act (1984). This legislation established the United States Sentencing Commission (USSC) in 1985 with the task of

⁹ Philip Mattered, 'The New Business Watergate: Prosecution of International Corporate Bribery is on the Rise,' December 18, 2007, <http://www.corpwatch.org/article.php?id=14859>

standardizing the definitions of all the (at the time) more than 2,000 federal crimes. An important additional aim of the legislation was to reduce the scope for judicial discretion in sentencing by standardizing the fines and sentences applied to those crimes. As a result of its mandate, the USSC introduced sentencing guidelines for individuals in 1987 (increasing the punishments for white-collar crimes) and, in 1991, introduced sentencing guidelines for organizations (making them broadly responsible for the actions of their employees).

1991 FEDERAL SENTENCING GUIDELINES

The modern-day ECO position, which first emerged in the 1970s (Weber & Fortun, 2005) but expanded rapidly in response to the 1991 Federal Sentencing Guidelines (Weaver et al., 1999b), therefore, has its roots in the field of legal compliance. More specifically, the position can be traced back to Chapter 8 of the 1991 Guidelines, which holds all organizations (firms, non-profit organizations, and governmental agencies) liable for the criminal acts of their employees. As a result of the Guidelines, for example, in 1996 both Archer Daniels Midland (price-fixing, \$100mn) and the Japanese bank Daiwa (concealing information from federal authorities, \$340mn) incurred fines for unethical behavior (LeClair et al., 1998).

Importantly, however, the Chapter 8 guidelines also offer incentives that enable organizations to minimize their liability in the event of an ethics transgression (Metzger et al., 1993):

- 1) executives may face legal charges when an employee commits a crime, and; 2) the corporation may face mandatory fines up to \$290 million (a threshold long since pierced). However, the commissioners said firms could reduce their risk by

developing an effective ethics program. A profession was born as more companies named chief ethics and compliance officers.¹⁰

The Guidelines apply to all organizations (whether for-profit or nonprofit) that commit a “federal felony or Class A misdemeanor” in a work-related activity (LeClair et al., 1998: 70). Examples of such crimes include acts in breach of antitrust legislation, copyright infringement, any kind of fraud or bribery, the invasion of privacy, or the illegal transportation of hazardous materials. In order to minimize judicial discretion and maximize the consistency of sentences across jurisdictions, the Guidelines established a set of penalty bands that determine the starting point for the punishment a particular offense will receive. For example, while bribery of a public official is a level 6 offense (with a base fine of \$5,000), the more serious offense of money laundering (level 20) carries a base fine of \$650,000 (Boatright, 2003). A multiplier ranging from 5% of the base fine to 400% of the base fine is then applied to the punishment—the higher the multiplier, the higher the eventual punishment. The size of the multiplier is determined by the organization’s actions in relation to the offense, which are judged by a combination of the seriousness of the offense committed, together with the policies and practices implemented prior to the offense that were designed to prevent the offense from occurring. Those organizations that had developed and implemented an *effective* ethics and compliance program prior to the offense receive leniency in the sentencing of crimes relative to those firms that either did not have such a program or had not implemented it comprehensively.

¹⁰ Keith Darcy, 2005, ‘Ethics Birth Certificate in Question,’ *Business Ethics Magazine*, Volume 19, Issue 3, p4.

THE ECO POSITION AND RESPONSIBILITIES

Business ethics differs from the related concept of corporate social responsibility (CSR) in two important ways. First, while CSR tends to include more of a macro perspective and evaluates the extent to which firm behavior affects society as a whole, business ethics focuses on more micro issues, such as individual behavior and decision making. And, second, while CSR is often externally focused and tied more closely to functions such as marketing, business ethics focuses internally on creating an ethical environment and has its roots in legal compliance.

In the broadest terms, an ECO is responsible for coordinating an organization's internal ethics program. Importantly, this largely entails monitoring an organization's voluntary activities in relation to criminal and regulatory compliance. This often locates the ECO function within the legal and compliance department (and ECOs often have dual responsibilities for ethics and compliance), although the core ECO activities (writing the firm's ethics code, conducting ethics training for employees and senior executives, managing the ethics helpline, and reporting to the Board of Directors) are separate from legal compliance. For example, while the Foreign Corrupt Practices Act (1977) makes it illegal for an employee of a U.S. firm to bribe an official of an overseas government, the legislation does not mandate specific steps to prevent bribery from happening. The ECO's responsibility in relation to this legislation, therefore, revolves around implementing voluntary codes, policies, and a workplace culture that inform employees of the law and their organization's position in relation to the legislation. I suggest that it is the voluntary nature of many of the ECO's activities that leads to significant variance in terms of organizational implementation.

In terms of creating a profile of organizational ECOs, a small regional survey of ECOs conducted by Weber and Fortun (2005: 110) reveals that the average ECO within the Pittsburgh Ethics Network is:

... typically a male who is 48 years old. He has been with his company for nearly 14 years and has held the ECO position for about three years. ... His educational background consists of either a JD or MBA or both. His primary job responsibilities most likely include ensuring compliance program oversight, conducting investigations of alleged employee misconduct, and carrying out the organization's employee ethics and compliance training program. The ethics or compliance program he heads was created between 1998 and 2000. ... He has a staff of fewer than five employees.

In contrast, the significantly more comprehensive 2006 ECOA member survey revealed that 48% of ECOs are female, 54% have greater than five years of ethics and compliance experience, 42% report to the General Counsel, 54% have either one or two direct reports, 58% work in organizations with more than 10,000 employees, and 53% have seen an increase in contacts to their organization's ethics helpline in the last two years.

THE ETHICS AND COMPLIANCE OFFICER ASSOCIATION

The ECOA¹¹ was founded in 1992 to represent the interests of this new profession of ECOs. It officially filed as a 501c6 nonprofit corporation in Delaware on June 17, 1992 with 19 founding organizations as members.¹² The ECOA is headquartered in

¹¹ When it was founded, this organization was initially called the Ethics Officers Association. It changed its name in January, 2006 to reflect the increasing overlap between ethics and compliance responsibilities of its members.

¹² The history of the ECOA is detailed on the organization's website:

http://www.theecoa.org/imis15/ECOAPublic/ABOUT_THE_ECOA/History_of_the_ECOA/ECOAPublic/AboutContent/History.aspx

Waltham, Massachusetts and, in 2008, had 1,269 individual and 559 organizational members:

The Ethics & Compliance Officer Association (ECOA) is a non-consulting, member-driven association exclusively for individuals who are responsible for their organization's ethics, compliance, and business conduct programs. The only organization of its kind, it is the largest group of business ethics and compliance practitioners in the world.¹³

While the U.S. government stipulates a requirement for firms to monitor their level of regulatory compliance, there is no similar requirement for them to monitor their level of criminal compliance. Firms were increasingly finding, however, that any exposure to criminal behavior presented a significant risk of liability and that the Chapter 8 provision of the 1991 Federal Sentencing Guidelines provided a means of managing this risk. In response to this institutional stimulus, therefore, firms began establishing the ECO position within their Compliance Departments to fill this gap and help manage the risk of potential criminal behavior:

By the mid 1990s, more than 80 percent of large companies had codes of conduct, and over one-third of major U.S. companies had an ethics officer. (LeClair et al., 1998: 11)

In recent years, especially since the ethics scandals involving a number of high-profile firms around the turn of the century, the Sarbanes-Oxley legislation that was passed in 2002, and the issuance of the revised Federal Sentencing Guidelines in 2004 that enhance the incentives for firms to implement a comprehensive ethics program, the number of ethics and compliance professionals has risen significantly. The ECOA

¹³http://www.theecoa.org/imis15/ECOAPublic/ABOUT_THE_ECOA/ECOAPublic/AboutContent/ABOUT_THE_ECOA.aspx

estimates today that 85% of the Fortune 500 firms have adopted the ECO position.¹⁴ The ECOA has seen its membership numbers rise in response. This growth is indicated in Figure 2, which presents the annual number of individual members of the ECOA since its founding in 1992.

Insert Figure 2 here

In the next section of this paper, I review the literature on the role of formal structure as a mediator between the firm and its environment, draw a clear theoretical distinction between adoption and implementation, and examine how organizations have approached the implementation of the ECO position.

¹⁴ Personal correspondence with author.

Organizational Structure

Identifying the determinants and purpose of an organization's formal structure is a question of great interest to organization theorists. It is a debate that occupied the attention of researchers for much of the twentieth century, evolving through distinct phases and underlying assumptions. Early organization theory, for example, was dominated by the belief that formal, bureaucratic structure arises to co-ordinate and control the technical activities of organizations, and that structural efficiency leads to superior performance (Taylor, 1911; Weber, 1930, 1947). Later, however, researchers drew on empirical observations to challenge the classification of a single "rational bureaucracy," distinguishing instead between different "bureaucratic" and "technical" types of administration (Stinchcombe, 1959; Udy, 1959), as well as between "mechanistic" and "organic" organizational structures (Burns & Stalker, 1961).

The idea that the formal structure of an organization can have different functions in different contexts reflects the argument that the technical environment is instrumental in determining organizational action. In defining an organization's "task environment" as the "inputs of information from external sources," researchers noted a constraint on managerial autonomy that had previously been ignored within the organizations literature (Dill, 1958: 410). This position developed into an open systems perspective that formalized the central role of the environment in determining organizational design and behavior (Blau & Scott, 1962; Katz & Kahn, 1966; Lawrence & Lorsch, 1967; Thompson, 1967). Udy (1970: 95), for example, noted the tension between "socially determined" and "technologically determined forms of work." In addition, Thompson (1967: 12) drew a distinction within organizations between the technical level ("the closed-system aspects of organizations"), the institutional level ("the open-system

qualities”), and argued that it is the role of the managerial level to mediate between the two.¹⁵

By the late 1960s, therefore, researchers recognized the important influence of the environment on organizational action and viewed an organization’s formal structure as conceptually distinct from its operational activities (Lawrence & Lorsch, 1967; Thompson, 1967). This contingency perspective, however, remained largely rational and adaptive in terms of framing an organization’s ability to shape and interact with its environment (Kraatz & Zajac, 1996). *Rational* organization theory presented an organization’s perception of its environment as determined largely by technical considerations (Scott, 2003).

In reaction to this continued assumption of (albeit limited) rationality and a focus on the technical environment, the late 1970s and early 1980s saw the emergence of a number of influential theories that sought to counter (DiMaggio & Powell, 1983; Hannan & Freeman, 1977; 1984; Meyer & Rowan, 1977) or bound (Pfeffer & Salancik, 1978) the notion of organizations as rational structures that reflect core technical tasks. Institutional theorists, in particular, emphasized the importance of the institutional environment, as distinct from the technical environment, with separate implications for organizational behavior. Researchers identified coercive, normative, and cognitive institutional mechanisms that constrain organizational behavior independent of any technical considerations (DiMaggio & Powell, 1983; Scott, 2001). In addition, the constructs of “loose coupling” and “decoupling” were developed to explain how systems of relatively independent sub-units remain stable over time within these institutional environments

¹⁵ Scott (2001: 26) credits the original source of this typology of different technical, managerial, and institutional levels within an organization to Parsons’ important work on organizations (1956a, 1956b). Parsons’ typology was subsequently adopted by Thompson who, as the first editor of *Administrative Science Quarterly*, had commissioned Parsons to write his two papers for the journal’s first volume in 1956 (Hirsch, 1997: 1707-1708).

(Weick, 1976) and to illustrate how organizations can manage the constraints inherent within institutional environments in ways that allow them to retain the societal legitimacy necessary to survive (Meyer & Rowan, 1977, 1978).

In its emphasis on the central role of “rationalized myths,” therefore, institutional theory represents a challenge to the notion that an organization designs its formal structure in response to its task environment with the primary purpose of coordinating technical operations (Meyer & Scott, 1983). Institutional theorists would not deny that an organization’s formal structure has technical value, but, instead, emphasize the role of structure as “a social myth”—a reflection of the organization’s socially constructed institutional environment that maintains managerial discretion while minimizing any disruption to the technical core (Meyer & Rowan, 1978: 107). In other words, while certain aspects of formal structure bridge across both the technical and the institutional (such as the CEO position), other aspects, at least initially, are created primarily as “visible symbols” (Edelman, 1992: 1567) that telegraph form over function.

Contrary to early organization theory, therefore, researchers now recognize that an organization is able to use its formal structure to “buffer” (Thompson, 1967: 20) or “conceal” (Oliver, 1991: 154) its technical core in an attempt to “avoid” environmental demands (Pfeffer & Salancik, 1978: 96). An optimistic interpretation suggests that loose coupling provides systems with the flexibility necessary to adapt to a changing environment by decentralizing internal co-ordination and control and is essential for large and diverse organizations (Weick, 1976). A more cynical interpretation, however, implies that decoupling allows organizations to pander to the needs and demands of constituent groups without committing significant levels of resources and, therefore, minimize any disruption to core organizational activities (Meyer & Rowan, 1977).

According to an institutional perspective, therefore, while the search for legitimacy in the face of environmental constraints necessarily defines organizational behavior, uncertainty regarding the extent of compliance makes the value or substance of such actions difficult to assess objectively (Pfeffer, 1981a). This opacity allows those organizations so predisposed to “preclude the necessity of conformity” (Oliver, 1991: 154) by superficially responding to external expectations. As Oliver (1991: 155) continues, “the appearance rather than the fact of conformity is often presumed to be sufficient for the attainment of legitimacy.”

Overlooked in early iterations of neoinstitutional theory, however, was the proactive role organizations play in shaping their external reality (DiMaggio, 1988; Oliver, 1991). While the institutional environment defines the parameters within which they act, organizations are entities with idiosyncratic sets of values, prior experiences, and patterns of behavior that permit them to pursue bounded agency. Decoupling at its most superficial, therefore, is the “inverse of implementation” (Sine & Tolbert, 2007) and only one of many possible responses to institutional pressures that lie on a continuum that ranges from more to less substantive. Thus, as noted earlier, while the adoption of a structural position is essentially a dichotomy (organizations either adopt or they do not), implementation is continuous (organizations implement more or less substantively than other organizations) and location on this continuum is indicative of a commitment to a specific position or practice (Lounsbury, 2001; Sine & Tolbert, 2007). Organizational responses to institutional pressures to conform, therefore, consist of two separate decisions—the decision to adopt the practice or position is separate from the decision regarding extent of implementation (Sine & Tolbert, 2007). In relation to the appointment of the ECO position, I argue that today, while there is little variance in terms of whether

firms have adopted,¹⁶ there is significant variance in terms of the timing of that decision and also the level of resources committed, and that explaining such variance is worthy of study.

ADOPTION VERSUS IMPLEMENTATION

From Baron, Dobbin and Jennings (1986) to Edelman (1992) to Zorn (2004), there is an extensive empirical literature that demonstrates how organizations respond to environmental pressures by altering their formal structure. In addition, there has been a great deal written about how practices diffuse through a population of organizations (DiMaggio & Powell, 1983; Rogers, 1995; Strang & Soule, 1998) and, in particular, how they diffuse among firms via interorganizational networks of inter-locking director ties (Davis, 1991; Haunschild, 1993; Haunschild & Beckman, 1998; Westphal et al., 2001). Many of these studies, however, measured the adoption of the practice or position of interest as a dichotomous variable (e.g., Rao & Sivakumar, 1999; Zorn, 2004), rather than study the implementation of that practice or position as a continuous variable that varies over time (e.g., Sine & Tolbert, 2007). Other studies combined the two to study the adoption of a fully-implemented position (e.g., Lounsbury, 2001). A clear theoretical and empirical distinction between adoption and implementation, therefore, is central to this study because it allows for the consideration of different antecedents and consequences to these separate actions. It also highlights the potential for organizational variance in response to institutional stimuli, to the extent that those responses are relatively more or less substantive.

Equally important to the theory and context of this paper is the notion that it is both task uncertainty (Meyer & Rowan, 1977; Weick, 1976) and environmental

¹⁶ In spring, 2008, the ECOA estimates that 85% of the Fortune 500 firms had adopted the ECO position.

ambiguity (George et al., 2006; Meyer & Scott, 1983) that encourage variance in organizational behavior. Such uncertainty is likely within highly institutionalized environments that increase the importance of external validation (such as an education system), and with regard to specific institutional demands made on organizations that otherwise operate in largely technical environments (such as a for-profit firm). The determinant is the degree to which the detail of compliance is agreed and well defined. If organizational action in relation to a specific issue is taken-for-granted, then there is less ambiguity in terms of what actions signify conformity.

Within an organization's environment, institutional forces are likely to be stronger in situations where performance metrics are undefined or non-standardized (such as ethics), increasing the importance for organizations of managing both internal (Zbaracki, 1998) and external (Pfeffer, 1981a) constituent expectations with symbolic behavior (Meyer & Rowan, 1977).¹⁷ In situations where information is available and performance metrics are agreed and easily quantifiable, organizations are likely to see fewer calls for additional monitoring (Hill & Jones, 1992). Where outcomes are vague and ill-defined, however, structural change has great symbolic value because it reassures external constituents that action is being taken and that the organization places importance on a particular issue (Pfeffer, 1981a).

Adoption, therefore, is a visible act that serves the institutional goals of the organization independent of any technical value the practice or position brings. To what extent that practice or position is then implemented more or less substantively is a decision that is less visible to external evaluation. For example, while it is relatively easy

¹⁷ It is important to acknowledge that genuinely implemented actions also contain symbolic value (Zajac & Westphal, 1995). In other words, symbolic value occurs independently of degrees of implementation (Ravasi & Rindova, 2008) and "structural change may be a means of achieving real improvement" (Edelman, 1992: 1543).

for external stakeholders to know that a firm has appointed an ECO (e.g., s/he goes to conferences, makes presentations, issues press releases, etc.), it is less obvious what the ECO's budget is and whether that budget is sufficient, or higher or lower than other firms. As such, I argue that additional factors specific to the organization will determine the level of valuable and scarce resources the organization is willing to commit to implementation. While the technical value of the practice to a given organization is one consideration (Westphal et al., 1997), another is likely to be the organization's set of values, prior experiences, and patterns of behavior in relation to the issue at hand (Clark, 1972; Greenwood & Hinings, 1996; Selznick, 1957; Suddaby et al., 2010a).

As a result of these firm-level factors, different organizations follow different paths that are likely to lead to different outcomes in response to the same institutional pressures. The characteristics of the organization that reflect values in relation to specific issues (such as ethics) constitute a path dependence in which the range of potential behavior is determined in part by comparison to historical behavior (Schneiberg, 2007; Stinchcombe, 1965; Suddaby et al., 2010b).¹⁸ I argue that this dependent path in relation to ethics is a constraint that limits executive discretion regarding the implementation of the ECO position within the organization and that the degree of constraint will vary across organizations as a function of each firm's history.

In terms of the institutional literature, however, there is much that we do not know about organizational implementation in response to specific external pressures. While there is a growing body of work on the issue of decoupling, for example, researchers in this area have tended to frame their arguments as power and dependence relations among

¹⁸ Beyond the idea of imprinting, which looks at conditions at the time of founding as predictors of various organizational (Stinchcombe, 1965) or network (Marquis, 2003) outcomes, however, this paper incorporates a more dynamic, iterative conceptualization of the interactive influence between institutional pressures and firm behavior.

key constituents (George et al., 2006), focusing on the absence (rather than extent) of implementation following adoption. Such studies demonstrate how firms announced their intention to adopt practices such as a stock re-purchase plan (Zajac & Westphal, 2004), long-term CEO incentive plan (Zajac & Westphal, 1995), corporate governance model (Fiss & Zajac, 2004, 2006), or ISO certification standard (King et al., 2005), but, ultimately, lacked the intention, capability, or resources necessary to implement completely, or even at all. In this study, I argue that, while the creation of a position acts as a signal to stakeholders of compliance (Edelman, 1992; Rao & Sivakumar, 1999), decoupling is only one of many possible levels of implementation that range along a continuum from more to less substantive. Specifically, I suggest that the level of scarce and valuable resources dedicated indicates the organization's commitment to the position (Lounsbury, 2001; Sine & Tolbert, 2007).

This literature review suggests that, in spite of a great deal of important related work, there are not many studies that draw a clear theoretical and empirical distinction between firm adoption and implementation behavior. As a result, we do not have a complete theoretical explanation for patterns of implementation among organizations responding to institutional pressures to conform. For example, while institutional theory strongly implies that conformity with the institutional environment is an exercise in window dressing in exchange for legitimacy (Meyer & Rowan, 1977; Meyer & Scott, 1983), the reality is that firms vary with respect to their interest and commitment to specific practices. Rather than assuming formal structure represents a “ceremonial façade” (Meyer & Rowan, 1977: 358) or “surface isomorphism” (Powell, 1985: 566), the more important empirical question is whether or not conformity with stakeholder expectations has “an impact on such key issues as budgetary and staff allocations” (Powell, 1985: 566). In this paper, I argue that variance in implementation of the ECO

position, in terms of the allocation of scarce and valuable organizational resources (budget, employees, and executive and director time), is a more meaningful assessment of commitment and a question of interest to organization researchers.

Sine and Tolbert (2007) demonstrate that the extent of implementation is determined by a number of factors, including: the level of ambiguity surrounding the appropriate level of implementation, various organizational characteristics, and the “lifecycle stage” of the institutionalization of the particular practice or position. Other researchers have focused on elements of these arguments—highlighting either the level of uncertainty (Edelman, 1992; Goodrick & Salancik, 1996; Zorn, 2004) or stage of adoption (Tolbert & Zucker, 1983; Westphal et al., 1997) as explanations of when firms exercise agency. In this study, I seek to build on this work and propose that an organization’s set of values, prior experiences, and patterns of behavior are predictive of the extent of implementation of the ECO position.

IMPLEMENTATION OF THE ECO POSITION

Institutional theory argues that an organization’s formal structure tends to reflect the socially-constructed rules of its institutionalized environment, particularly those where uncertainty is present and output is difficult to evaluate (Meyer & Rowan, 1977). Formal structure arises as a means of addressing the conflict organizations face, either between technical and institutional demands, or conflict among different institutional demands.

Within this theoretical framework, an empirical context related to ethics or social responsibility appears to be an ideal context in which to study variance in the extent of implementation of a new structural position. *Ethics* is a subjective and relative term that is difficult to evaluate. In addition, public perceptions regarding what it means for an

organization to be ethical are still forming. The appointment of this relatively recent position (the ECO) is one way in which firms can indicate their attendance to increased stakeholder calls for reform, without necessarily involving significant resource commitments. As such, it is likely that the extent of implementation of the position will vary among organizations.

Combined with (and, perhaps, as a result of) this general environmental uncertainty, there is anecdotal evidence to suggest that at least some ECOs receive insufficient resources to do their jobs effectively¹⁹ and that some organizations consider the ECO position as “trendy,” the main purpose of which is “window dressing”²⁰ for firms that want to be seen to be doing the *right thing* in relation to ethics. In addition, within the organizations literature there is evidence to support the contention that organizations respond to external “expectations for socially responsible processes and outcomes” in relation to ethics with symbolic behavior (Weaver et al., 1999b: 539). Indeed, some researchers have gone as far as to describe early organizational ethics codes as filled with “bland lists of platitudes” (Bavaria, 1991: 9) and “motherhood and apple pie statements” (Laczniak & Murphy, 1991: 268). Alternatively, researchers have identified both environmental pressures and the commitment of executives to ethics as antecedents of a firm’s ethics programs (Weaver et al., 1999a) and the appointment of an ECO (Weber & Fortun, 2005), and demonstrated that ethics codes are relevant documents for senior executives (Stevens et al., 2005). And, as long ago as the 1970s and 1980s, researchers noted a role for organizational adaptation in the pursuit of legitimacy, citing

¹⁹ ‘Leading Corporate Integrity: Defining the Role of the Chief Ethics & Compliance Officer (CECO),’ *Ethics Resource Center*, January 2008, <http://www.ethics.org/resource/ceco>; Lisa Roner, ‘Ethics officers—Positions that need power,’ *Ethical Corporate Magazine*, October 4, 2007: <http://www.ethicalcorp.com/content.asp?ContentID=5411>

²⁰ Hannah Clark, ‘Chief Ethics Officers: Who Needs Them?’ *Forbes Magazine*, October 23, 2006, http://www.forbes.com/2006/10/23/leadership-ethics-hp-lead-govern-cx_hc_1023ethics.html

“the new trend toward corporate responsibility” as a signal of an organization’s sensitivity to its changing societal environment (Dowling & Pfeffer, 1975: 128), while also attempting to evaluate the effect of corporate social responsibility on firm profitability (Aupperle et al., 1985; Ullmann, 1985).

Why might organizations respond to environmental pressures to change by embellishing formal structure with symbolic positions, failing to provide them with sufficient organizational resources to do the job they have been established to do? The reasons are likely to vary from organization to organization. For example, a firm might feel that it is already doing what is expected of it, but not receiving sufficient recognition and a tangible position acts as a signal to stakeholders (Rao & Sivakumar, 1999). Also, firms seek the legitimacy that accompanies the perception of conformity that is provided by a symbolic figurehead (Meyer & Rowan, 1977). Or, finally, less substantive implementation might arise from uncertainty regarding how to adopt (Edelman, 1992; Goodrick & Salancik, 1996). A firm might genuinely intend to implement its ECO position substantively, but identifying the appropriate level of resources is a trial-and-error process that takes time to establish, depending on the context in which the firm operates.

Given the considerable theoretical (Bies et al., 2007; Campbell, 2007; Godfrey, 2005), empirical (Margolis & Walsh, 2003; Orlitzky et al., 2003; Weaver et al., 1999a), and anecdotal²¹ evidence to suggest that firms face substantial external pressures to enact ethics and social responsibility programs, and given that there is some evidence to suggest that some firms treat their ethics codes as “a pretext for public posturing”

²¹ For examples, see ‘The Good Company: A Survey of Corporate Social Responsibility,’ *The Economist*, Special Report, January 22, 2005; and ‘Corporate Social Responsibility: Just Good Business,’ *The Economist*, Special Report, January 17, 2008.

(Metzger et al., 1993: 29), I suggest that it is important to understand empirically to what extent firms vary in their extent of implementation of the ECO position.

While the 1991 Federal Sentencing Guidelines, and their extension in 2004, provide coercive and normative pressures for organizations to conform to societal expectations of ethical behavior, however, it is not at all clear what an *ethical organization* looks like or how it should necessarily act. The incentives contained within the Guidelines apply to organizations that have established an “*effective* compliance and ethics program,” (emphasis added), with little specific indication as to how effectiveness is assessed. As the USSC reiterates in its 2004 Revision of Chapter 8 of its sentencing guidelines relating to ethics and compliance programs:

2. EFFECTIVE COMPLIANCE AND ETHICS PROGRAM

§8B2.1. Effective Compliance and Ethics Program

- (a) To have an effective compliance and ethics program, for purposes of subsection (f) of §8C2.5 (Culpability Score) and subsection (c)(1) of §8D1.4 (Recommended Conditions of Probation - Organizations), an organization shall—
- (1) exercise due diligence to prevent and detect criminal conduct; and
 - (2) otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.

Such compliance and ethics program shall be reasonably designed, implemented, and enforced so that the program is generally effective in preventing and detecting criminal conduct. The failure to prevent or detect the instant offense does not necessarily mean that the program is not generally effective in preventing and detecting criminal conduct.

In its attempt to define an “effective ethics program,” the original 1991 Guidelines contained a seven step process that constitutes the minimum level of “due

diligence” necessary for organizations to establish an effective ethics and compliance program and qualify for leniency in future sentencing. The seven steps include the need to establish compliance standards and processes to prevent ethics transgressions, and also to ensure such standards and processes are communicated to all employees and other relevant stakeholders. It is not clear, however, whether these steps help in terms of implementation or create further confusion. While most of the requirements are clear to the extent that, for example, they state that employees who do not abide by the organization’s standards should be punished; issues such as what acts constitute a transgression and how and to what extent the employees should be punished are left to the organization to determine. In short, the over-arching purpose of the legislation is to punish those organizations that commit specific offenses, while motivating organizations in general to implement practices and procedures that will prevent serious criminal and ethics transgressions. But, while this is easier in terms of straightforward compliance, where specific action is often mandated and transgressions are easily identified, it is less clear in terms of business ethics, which often involves voluntary behavior beyond the letter of the law and is driven by less tangible factors, such as the values and characteristics of the organization.

As Edelman (1992: 1542) argues, “Organizations respond visibly to law by elaborating their formal structures,” but that “Laws that are ambiguous, procedural in emphasis, and difficult to enforce invite symbolic responses.” Such symbolic, yet visible, indicators of action are often sufficient to satisfy expectations of compliance, whether or not they are backed up with substance. More importantly, however, over time these symbolic responses become accepted as the socially-constructed definition of what it means to comply (Edelman, 1992). While increasing pressures for greater ethical behavior in the institutional environment are likely to lead to greater numbers of firms

adopting the position, I argue that there is the potential for significant variance in implementation. The reason for this is that the creation of the position is a visible signal to a firm's stakeholders that it is responding to their demands, but implementation (in terms of access to the level of resources necessary for the ECO to act effectively)²² is less visible and something over which firms have more control (Edelman, 1992). If so, I argue that explaining why some firms implement more or less substantively represents an important contribution to the organizations literature.

In the next section of this paper, I present my hypothesized relationships at both the field and firm level of analysis in relation to the adoption and implementation of the ECO position within organizations.

²² Lisa Roner, 'Ethics officers—Positions that need power,' *Ethical Corporate Magazine*, October 4, 2007: <http://www.ethicalcorp.com/content.asp?ContentID=5411>; Hannah Clark, 'Chief Ethics Officers: Who Needs Them?' *Forbes Magazine*, October 23, 2006, http://www.forbes.com/2006/10/23/leadership-ethics-hp-lead-govern-cx_hc_1023ethics.html

Hypotheses

The early focus for neoinstitutional theorists was on differentiating the theory from the rational, open-system perspective of the 1960s (DiMaggio & Powell, 1991; Kraatz & Zajac, 1996), rather than on building a complete theory of how institutions are formed, maintained, and replaced (DiMaggio, 1988; DiMaggio & Powell, 1991; Powell, 1991). The over-socialized result focused on the environment as a macro level constraint and ignored the role of organizations, whose actions and interactions construct the institutions to which they conform. In other words, the emphasis was on institutions as structure, rather than on institutions as agents; on the diffusion of institutions and isomorphic tendencies, rather than on the process by which institutions are created, changed, and replaced over time (Lawrence & Suddaby, 2006). This reflects a general tendency within organization theory to focus on static views, rather than dynamic processes (McAdam & Scott, 2005; Suddaby, 2010).

Adopting a structuration perspective (Giddens, 1979, 1984; Goffman, 1983) encourages a more holistic perspective within institutional theory (Barley, 1986; Barley & Tolbert, 1997; Sewell, 1992). Bourdieu's (1988: 782) concept of *habitus*,²³ designed to embody the "dialectical relationship" between the objectivist (structural) and subjectivist (agency) positions, represents a similar idea (Hirsch & Lounsbury, 1997; Sewell, 1992). These ideas overcome the artificial theoretical divide between structure and agent that belies empirical reality and suggest that the institution should not be thought of as distinct from the actor. Institutions only exist in that they are interpreted and enacted by individual actors. It is the interaction among actors that creates the institution (a socially-

²³ Bourdieu's concept of *habitus* describes a system of dispositions within the individual that is both defined by the institutional environment, yet retains the potential for agency (Bourdieu, 1981).

constructed, taken-for-granted norm that is infused with value) that, in turn, constrains future action, yet also remains susceptible to change (or obsolescence) as interaction among actors evolves.

Integrating such a perspective within neoinstitutional theory fulfills an idea that was included, but under-emphasized, in its original framing (DiMaggio & Powell, 1983: 148) and later resurrected as researchers recognized the limitations of the early neoinstitutional proposition. DiMaggio and Powell, both separately (DiMaggio, 1988: 12; Powell, 1991: 194-200) and together (DiMaggio & Powell, 1991: 22-27), argued that to limit explanations of action to an external framework of constraining forces constitutes an unnecessary boundary condition that restricts the theory to explaining the diffusion and reproduction of institutional practices. Of particular importance was DiMaggio's (1988) call for neoinstitutional theory to incorporate a more iterative relationship between an organization's strategic interests, agency, and entrepreneurial action in response to its institutional environment.

As this more proactive perspective developed (Leblebici et al., 1991; Oliver, 1991), it provided a more realistic description of the complex interactions an organization has with the forces in its environment (e.g., D'Aunno et al., 2000; Elsbach & Sutton, 1992; Greenwood & Suddaby, 2006; Kraatz & Zajac, 1996; Strang & Sine, 2002). Coupled with work designed to re-integrate structuration theory more centrally within neoinstitutional theory (Barley, 1986; Barley & Tolbert, 1997; Sewell, 1992) and bridge the *old* and *new* institutional theories (Greenwood & Hinings, 1996), the field now has a more complete view of the interactive relationship between structure and agent, as well as a more complete view of the process of institutionalization—institutions emerge, diffuse, change, die, and are replaced by new institutions (Hinings et al., 2004; Scott, 2001: Chp. 8).

An extension of this debate is the idea of institutions as dynamic forces that ebb and flow as societal expectations evolve, coalesce, and dissipate. Where researchers have addressed dynamism in the past, they framed institutions (Barley & Tolbert, 1997), logics (Lounsbury, 2007), or archetypes (Greenwood & Hinings, 1993) as forming from an iterative relationship between structure and agent (Barley, 1986). In this paper, I add a dimension to this conceptualization at the field level of analysis by theorizing that this relationship occurs in wave-like patterns. Rather than linear pressures to conform, I argue that institutional forces peak and trough as different interests advance and retreat. As a result, the influence on firm action is not monotonic, but varies as expectations evolve and different actors respond. While the overall trend might be in a particular direction (i.e., increasing or decreasing), the period-to-period conflict generates turbulence that causes the intensity of those pressures to fluctuate.

Although institutions have been conceptualized as dynamic forces in prior research (e.g., Hinings et al., 2004), this concept is difficult to operationalize. As a result, many studies tend either to focus on adoption and ignore variance in implementation (e.g., Davis, 1991; Palmer et al., 1993; Rao & Sivakumar, 1999; Zorn, 2004), combine both adoption and implementation in the same variable (e.g., Lounsbury, 2001), adopt DiMaggio and Powell's (1983) "iron cage" framework to study institutional forces as static, inertial influences on organizational behavior (e.g., Tolbert, 1985), or study the effects of a particular influence on behavior at early versus later stages of adoption (e.g., Tolbert & Zucker, 1983; Westphal et al., 1997). The reality is more complex (Ansari et al., 2010; Kennedy & Fiss, 2009; Lounsbury, 2007; Weber et al., 2009) and, as a result, different interpretations of the same over-arching stimuli (e.g., societal pressures for greater ethical behavior) will likely generate variance in actions and outcomes (e.g., the adoption of the ECO position at different points in time).

This framing is important because, although there is a substantial literature within the management field that has investigated the antecedents of firm adoption behavior (why practices and policies diffuse among organizations), there is still much to learn about when firms adopt and how they implement. I argue that adopting the perspective of institutions as dynamic forces that ebb and flow in wave-like patterns helps explain more effectively variance in firm adoption behavior. Having a clearer understanding of the broader context in which firms decide to adopt helps explain how they will implement—a range of behavior that extends from the more to less substantive, but depends partially on the firm’s interpretation of external pressures at a given point in time. As actors with values, prior experiences, and patterns of behavior, organizations follow idiosyncratic paths that are likely to lead to different outcomes in response to the same institutional pressures.

In studying these questions, I identify important antecedents to firm behavior at the field and firm level of analysis, frame that behavior within a dynamic perspective of institutional pressures on action, and demonstrate that organizational decisions in this respect are consequential. As such, I argue that understanding when and why firms are likely to act more or less substantively in relation to institutional pressures for greater ethical behavior is an area of interest for organization researchers.

INSTITUTIONAL WAVES²⁴ AND THE ECO POSITION

The foundation for this dynamic perspective exists within neoinstitutional theory. Building on earlier work that established the formal structure of an organization and its

²⁴ This conceptualization of *institutional waves* as the ebb and flow of societal attention distinguishes it from prior use of the “waves” metaphor in the literature (Abrahamson & Fairchild, 1999; Shipilov et al., 2010). In both these cases, the authors used the idea of waves to illustrate single-wave diffusion (Rogers, 1995) across multiple practices—different management theories (Abrahamson & Fairchild, 1999) and corporate governance reforms in Canada (Shipilov et al., 2010). In contrast, the focus in this study is on multiple waves (multiple peaks and troughs) within the same practice (the adoption of the ECO position).

technical purpose as conceptually separate (Thompson, 1967), researchers argued that, in order to insulate themselves from competing tensions in their task and institutional environments, organizations construct a formal structure with responsibilities that are, in part, independent of any technical justification (Meyer & Rowan, 1977; Pfeffer, 1981a; Weick, 1976). Central to this understanding, however, is the recognition that organizational environments are not uniform and, in fact, vary in their mix along two dimensions—the extent of technical and institutional forces that, together, constitute different “societal sectors” (Scott & Meyer, 1983). Some environments are characterized more by technical forces and some are characterized more by institutional forces (Meyer & Rowan, 1977; Meyer & Scott, 1983; Scott & Meyer, 1994). Environments are not static, however, and vary depending on the issue or task at hand. Complex organizations face multiple environments full of pluralistic, competing forces that reflect the multiple facets of their operations and the multiple constituents to whom they need to appeal (Kraatz & Block, 2008). As a result, organizations respond differently at different times to the different forces in these different environments (Meyer, 1982; Oliver, 1991).

This tension between institutional and technical forces, as well as among different institutional forces, is captured in the established literature on institutional conflict and change and the role of institutional entrepreneurs. DiMaggio (1988: 14) first introduced the term “institutional entrepreneur” as part of his call for institutional theory to include a more complete explanation of actor interests and agency. Institutional entrepreneurs are agents who deploy the resources at their disposal to create, alter, and empower institutions in ways that they deem to be appropriate and aligned with their interests.²⁵ They have the resources and, hence, the power to shape the character and lifecycles of institutions (Abrahamson & Fairchild, 1999) and enact change (Dacin et al., 2002).

²⁵ For a comprehensive review see Battilana, Leca, and Boxenbaum (2009).

In order to propose a change, however, an alternative has to be conceived of as possible (Greenwood & Suddaby, 2006; Seo & Creed, 2002). Consistent with this idea of change, Friedland and Alford (1991: 232) contend that it is conflict among competing institutions that produces the “multiple logics” from which entrepreneurs, whether individuals or organizations, select (Hirsch, 1986; Thornton & Ocasio, 1999).²⁶ Such multiple, competing logics are more likely to occur in emerging (Maguire et al., 2004) or fragmented (D'Aunno et al., 2000; Seo & Creed, 2002) fields, where researchers have found that, given the ideal mix of conditions and incentives, both marginal (Ingram & Rao, 2004; Leblebici et al., 1991) and central (Greenwood & Suddaby, 2006; Rao et al., 2005) actors can take advantage of institutional conflict (Hargrave & Van De Ven, 2006; Rao, 1998) to initiate change. Ingram and Rao's (2004) emphasis on both contention and diffusion in modeling institutional change establishes conflict at the heart of institutional theory.

An important part of this debate is the conceptualization of institutions as dynamic forces (Barley & Tolbert, 1997; Hinings et al., 2004; Lawrence & Suddaby, 2006). In addition to growing, stagnating, dying, and being replaced, I theorize that institutions ebb and flow in intensity, exerting different pressures on different actors, in different ways, at different points in time. As a result, the influence of institutions on organizational action is not linear, but varies as expectations evolve and coalesce and different institutional actors are prompted into action. The different interpretations and responses of actors to the same over-arching institutional stimuli (e.g., societal pressure for greater ethical behavior) will often result in different actions and outcomes (e.g., the adoption of the ECO position in greater numbers at different points in time). In prior

²⁶ Institutional logics are described as societal-level “beliefs, norms, routine practices” (Scott, 2001: 134).

research, however, a dynamic perspective has been difficult to operationalize and, as such, remains an under-studied phenomenon.

In the context of this study (the adoption and implementation of the ECO position by organizations), the dynamic influence of environmental forces on firm behavior is captured in the new theoretical concept of *institutional waves*. These waves are characterized by peaks and troughs of varying intensity that are driven by societal attention to “critical events” (Hoffman & Ocasio, 2001: 414). These pivotal events become emblematic of moments in time and lead to heightened demands for organizational change. In terms of ethics, for example, the collapse of Enron in 2001 came to symbolize a broader era of corporate malfeasance that generated heightened demands on all firms for greater ethical behavior. Societal attention, however, is limited and easily distracted, focusing on salient events as directed by media attention (Kennedy, 2008) or fads and fashions (Abrahamson & Fairchild, 1999). As the moment passes and the spotlight of societal attention is directed elsewhere (i.e., away from organizational ethics onto some other media focus and public discussion point), the pressure on firms to act is released. It is this contrast, therefore, between the heightened intensity of institutional pressures as societal attention coalesces around specific events and the dissipation of this intensity as societal attention is distracted that constitutes the peaks and troughs of my theorized waves.

While societal attention is fleeting, however, the effects of specific events can have long-lasting implications for firms and lead to elevated response levels in the periods following each event. The length of each wave is determined by the scale of the focal event, with formative events initiating longer term waves that influence firms over multiple years. A direct response to the Enron collapse and other corporate scandals in the U.S. around the same time, for example, was the passage of the Sarbanes-Oxley

legislation in 2002, which aimed to influence a broad array of firm behavior. Whether long or short, however, each wave ultimately recedes in influence until the next major linked event causes societal attention to refocus and institutional intensity to ratchet up again.

Insert Figure 3 here

In other words, pressure on firms to act ethically is ever present, but, rather than a linear force, it ebbs and flows over time. This fluctuation is presented in Figure 3.²⁷ Rather than seeking to differentiate between different coercive, normative, and mimetic influences on behavior, this model recognizes that, empirically, these forces are interactive and difficult to tease apart (Mizruchi & Fein, 1999). Instead, it presents a proxy for the general institutional environment in relation to business ethics (a proportional count of related business press articles about ethics) together with specific events that occurred in four separate years over the period of this study. These events (occurring in the years 1991, 1996, 2002, and 2004) represent the peaks of the institutional waves, when societal attention was most focused on the issue of organizational ethics and both contributed to and reflected the increased media coverage surrounding ethics at the time. They were identified by ECOs in preliminary interviews I conducted and are consistently cited in the relevant literature as important stimuli to organizational action in relation to ethics, in general, and the adoption of the ECO position, in particular (Paine et al., 2005; Weaver et al., 1999a, 1999b; Weber & Fortun,

²⁷ Total Article Count (ethic*) represents the proportion of articles containing the search term ethic* that appeared in the publications *Wall Street Journal*, *New York Times*, *Financial Times*, *BusinessWeek*, *Fortune*, and *Forbes*, as well as the publications *Harvard Business Review* and *California Management Review* from 1980 to 2007, controlling for the total number of articles in each year for each publication.

2005).²⁸ As such, I argue that these events in these four years constitute critical events that, in turn, stimulate waves of action among firms in response.

First, in 1991, the government introduced the Federal Sentencing Guidelines that were designed to hold organizations accountable for the actions of individual employees. Chapter 8 of these Guidelines, in particular, is widely recognized to have resulted in the diffusion of the ECO position among U.S. firms (Boatright, 2003; LeClair et al., 1998; Weaver et al., 1999a, 1999b; Weber & Fortun, 2005).²⁹

Second, in 1996, a decision against Caremark International Inc. by the Delaware State Supreme Court held that company directors have a fiduciary responsibility to manage risk in a way that protects shareholders' interests. In particular, the case focused on the prevention of criminal violations and was "described as a "wake-up call" to directors that they may be personally liable for their failure to ensure that a corporation has an adequate compliance system in place" (Boatright, 2003: 397). Also in 1996, the Japanese bank Daiwa was fined \$340m for concealing information from federal authorities about \$1.1bn in trading losses by a single trader, even though the firm had been asked not to disclose the information by the Japanese Ministry of Finance for fear it would cause market instability in Japan. The bank was accused by the U.S. Attorney's Office in court of failing "to establish and enforce a system of internal controls and checks and balances that are designed to protect against the criminal acts of corporate employees" (LeClair et al., 1998: 66). The size of the fine ensured the case attracted a lot

²⁸ This anecdotal evidence was supported by the results of the pilot tests I ran for my ECOA survey. The pilot test participants were ten senior ECOs that the ECOA identified as working for a representative sample of its organizational membership. In this test, all respondents identified one or more of the events that occurred in these four years as a "significant influence" on their organization's decision to establish the ECO position. In addition, given the opportunity to "list any other factors that influenced your organization's commitment to ethics and the establishment of the ECO position," none of the respondents provided any other specific events.

²⁹ See the chapter titled 'Ethics and Compliance Officers' for further detail.

of media attention as it highlighted the potential financial ramifications for firms of the 1991 Federal Sentencing Guidelines.

Third, following a number of business ethics scandals that occurred around the turn of the century (the most high profile of which was the fall of the energy giant Enron, which had won widespread acclaim for its comprehensive ethics programs)³⁰ and the resulting public outcry, Congress introduced the Sarbanes-Oxley (SOX) Act of 2002.³¹ In relation to business ethics, a notable component of the legislation compelled firms to establish a confidential reporting procedure (e.g., a 1-800 telephone number or e-mail ‘helpline’) for employees to report ethics transgressions within the organization.³² Section 406 of the Act also compelled those firms that have an Ethics Code for senior executives and directors to make it publicly available (including waivers and amendments) and, for those firms that do not have an Ethics Code, to announce publicly that this is the case. Both of these activities, the helpline and Ethics Code, have subsequently become core components of the ECO function within organizations. The ECOs I interviewed confirmed that the increased attention afforded to business ethics in light of the various scandals that preceded SOX and the debate generated in the run-up to the passing of the legislation, raised the profile of their position and the attention they received from senior management.

³⁰ For example, “In 2000, Enron received six environmental awards. It had progressive policies on climate change, human rights, and anti-corruption” (<http://www.thecro.com/node/68>). As Ken Lay wrote to Enron’s employees in a memorandum with the subject line “Code of Ethics” in July 2000: “As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies ... we are responsible for conducting the business affairs of the Company in accordance with all applicable laws and in a moral and honest manner.”

³¹ Also in 2002, both the NYSE and NASDAQ altered their listing requirements, compelling firms listed on the exchange to adopt and disclose both corporate governance guidelines and a code of business conduct and ethics for all employees, following SEC approval of standards for such reports.

³² Section 301.4b (2002: 776), <http://www.404.gov/about/laws/soa2002.pdf>

Finally, in 2004, the government announced its Revised Federal Sentencing Guidelines. The revised Guidelines build on the 1991 Guidelines and enhance the incentives for firms to implement a comprehensive ethics program. In particular, the 2004 revised guidelines emphasize the importance of an “ethical culture” within organizations.³³ The ECOA believes that it is the combination of SOX and the revised 2004 Federal Sentencing Guidelines that has seen their organizational membership increase markedly since 2003.³⁴ As Keith Darcy, Executive Director of the ECOA, summarizes:

In addition to legal compliance, the [2004 revised federal sentencing] guidelines require businesses to promote an ethical culture to support such compliance. We have already had a case where the US attorney for western Pennsylvania hired a consultant to do a culture assessment of a corporation before recommending sentencing. Culture is the best means of self-regulation.³⁵

Together, these events and the periods in-between constitute an ebb and flow of institutional pressures on firms as societal expectations regarding business ethics evolve, focus, and refocus. Thus, while the general pressure on firms in relation to ethics is argued to have increased gradually over time (reflected in the gradual increase in the proportion of articles in the business media discussing ethics in Figure 3), there were also specific instances where societal pressures coalesced into coercive and normative forces that, I argue, are likely to precipitate a spike in organizational action in response (the peaks of the waves). This diachronic process speaks to the dynamic nature of the

³³ Andrew Newton, ‘Ethics Officers on the Rise’ *Ethical Corporation Magazine*, July 26, 2005, <http://www.ethicalcorp.com/content.asp?ContentID=3799>

³⁴ EC Newsdesk, ‘Ethics Officers—A Growing Breed?’ *Ethical Corporation Magazine*, February 7, 2005, <http://www.ethicalcorp.com/content.asp?ContentID=3466>

³⁵ Andrew Newton, ‘Ethics Officers on the Rise’ *Ethical Corporation Magazine*, July 26, 2005, <http://www.ethicalcorp.com/content.asp?ContentID=3799>

creation, maintenance, and reinterpretation of institutions over time (Barley & Tolbert, 1997; Hinings et al., 2004; Lawrence & Suddaby, 2006; Lawrence et al., 2009).

In sum, institutions are not static, but are dynamic forces that ebb and flow in waves as societal expectations evolve, coalesce, and dissipate. In addition, institutions do not merely constrain behavior, but interact with self-interested organizations whose actions help shape the environment that then defines their range of potential action. This interactive environment is characterized by a general institutional pressure on organizations to act, which may trend either higher or lower over time, but also sees accelerated periods of activity when issues, opinions, and campaigns coalesce in specific events, or “jolts” (Meyer, 1982), that punctuate the status quo (Romanelli & Tushman, 1994; Tushman & Romanelli, 1985). These “critical events” (Hoffman & Ocasio, 2001: 414) represent peaks of interest in relation to organizational ethics and lead to increased action across firms in response, such as the adoption of the ECO position. They also diminish in influence over time as societal attention shifts, until the next major event occurs:

Hypothesis 1a: Following each of the four critical ethics events, there is an initial increase in the likelihood of a firm adopting the ECO position, followed by a decrease.

As a result of the turbulent institutional environment theorized above and presented in Figure 3, I argue that fluctuating institutions prompt different organizations to respond in different ways at different points in time. In contrast, however, institutional theory tends to break down the motivations driving organizations to adopt a new idea or business practice into an artificial dichotomy of early and later adopters. Early adopters, we are told, seek to break the mold and establish a trend towards institutional change (Thornton & Ocasio, 1999). These organizations adopt for technical rather than

institutional reasons; in other words, they adopt because they perceive value in an idea or business practice that breaks with existing institutional logics (Suddaby & Greenwood, 2005) and seek to customize it for their particular needs (Westphal et al., 1997). Later adopters, however, if they act at all, do so out of social pressures to conform with little choice (Meyer & Rowan, 1977: 344). For them, the prospective economic benefits of the idea in question are a lesser concern—they have either not been considered, or are believed to be too slight to be of significant value (Davis et al., 1994; Tolbert & Zucker, 1983; Westphal et al., 1997; Zajac & Westphal, 2004); they believe that the primary benefit for acting is the legitimacy gained by acceding to societal norms and expectations (Suchman, 1995). Although institutional theory is not clear whether these later adopters are more likely to act substantively or symbolically, it follows that firms that are actively adopting, fully aware of the potential benefit such adoption will bring, are likely to be more genuine, complete, and effective in their implementation, compared to those firms that are adopting the ‘off-the-shelf’ version, with little understanding of the value of their actions. Although there are bound to be exceptions, it seems intuitive that later adopters, whether intentionally or not, are more likely to decouple stated intention from practice (Boxenbaum & Jonsson, 2008).

In general, however, it is unclear that this artificial dichotomy of technical (early) versus institutional (later) actors provides a sufficiently comprehensive understanding of the motivations driving organizational action. In reality, institutions are dynamic forces that do not act uniformly on different actors at specific points in time (Barley & Tolbert, 1997; Hinings et al., 2004; Lawrence & Suddaby, 2006). Rather, they ebb and flow as ideas evolve and coalesce and generate organization-specific action in response. With few exceptions (Tolbert & Zucker, 1996), however, it is only recently that institutional researchers have begun seriously to challenge the early/late dichotomy and

conceptualize a more comprehensive view of the complex range of motivations that drive organizational action (Kennedy & Fiss, 2009; Lounsbury, 2007).

During any period of institutional change or shift in institutional logics, a period of contestation is expected as new ideas conflict with existing taken-for-granted understandings (Friedland & Alford, 1991). In order for the introduction of a firm level structural change to be implemented substantively, for example, the ECO position in the 1990s had to compete with the more established logic that spending on ethics or social responsibility was a distraction from the core technical competence of the firm and fiduciary responsibilities of its top management team (Friedman, 1970; Levitt, 1958). It wasn't until later that the institutional environment shifted to validate organizational action in relation to ethics and social responsibility more conclusively.³⁶ During this period of turbulence as societal expectations evolve and coalesce, I contend that fewer firms are likely to adopt in the absence of coercive institutional pressures, but, of those organizations that do act, their executives are more likely to believe there is technical value to appointing an ECO and, therefore, more likely to commit significant organizational resources to support the position (Haunschild & Rhee, 2004). When coercive institutions act to constrain organizational behavior and force adoption, however, there is likely to be greater variance in terms of implementation due to the fact that action is being coerced, rather than being entered into voluntarily.

In addition to the institutional mix of coercive, normative, and mimetic pressures to conform, therefore, it is also likely that the characteristics of the organization will be instrumental in determining the nature of its response to institutional pressures. While an organization that adopts a given practice in the absence of a critical ethics event is more

³⁶ For examples, see 'The Good Company: A Survey of Corporate Social Responsibility,' *The Economist*, Special Report, January 22, 2005; and 'Corporate Social Responsibility: Just Good Business,' *The Economist*, Special Report, January 17, 2008.

likely to have done so of its own volition, an organization that adopts a specific practice following one of these moments of institutional intensity does so because the greater pressure and attention reduces its capacity to resist (Haunschild & Rhee, 2004). There are multiple explanations, however, for why an organization might have previously resisted adopting the practice. In relation to ethics, for example, an organization might have resisted adopting the ECO position because it feels that ethics is an unnecessary investment that results in dubious value and, as such, is a distraction from the firm's primary role of maximizing profit. Another firm, however, might have resisted adopting the ECO position because it already considers itself to be an ethical organization and does not need to create a formal ethics position to 'prove it.' I anticipate that, while both of these different kinds of organizations might adopt the ECO position following the increase in pressure that accompanies a critical ethics event, they will implement that position in different ways once the decision to adopt is made because of their different perspectives in relation to ethics (one skeptical, the other supportive). While the skeptical organization might implement less substantively, because it remains unconvinced of the technical value of the position, the supportive organization is more likely to implement more substantively, adopting as a signal to stakeholders, but using the opportunity to collect previously disparate responsibilities under one, fully-resourced position (Lounsbury, 2001).

Organizations that adopt the position of their own volition in the absence of a critical ethics event, however, are more likely to do so because they see value in having an ECO and will likely tend towards more substantive implementation (Haunschild & Rhee, 2004). As a result, I anticipate that there will be greater variance in the extent of implementation among organizations that adopt the ECO position following a critical ethics event (with a range of more or less substantive positions), than among those

organizations that adopt in the absence of such a change (when most implementation will be more substantive):

Hypothesis 1b: Following each of the four critical ethics events, there is an initial increase in the diversity of the extent of implementation of the ECO position across firms, followed by a decrease.

In addition to understanding that peaks in institutional waves stimulate greater *likelihood of adoption of the ECO position* by organizations and greater *diversity of the extent of implementation of the ECO position*, I am interested in explaining heterogeneity in patterns of implementation within organizations. In other words, given a constant institutional environment, why do some organizations implement more substantively (committing greater amounts of scarce and valuable resources), while other organizations implement less substantively (committing fewer resources)? I argue that ambiguous concepts such as ethics or social responsibility, which are characterized by strong institutional pressures to conform but vague definitions of compliance, encourage widespread adoption but variance in implementation. As argued above, I anticipate that firm-level factors (such as an organization's set of values, prior experiences, and patterns of behavior), will predict the extent of implementation of the ECO position. I operationalize these characteristics using two specific variables—an organization's *track record of performance* in relation to ethics and social responsibility, and whether it has committed a *severe ethics transgression*.

ANTECEDENTS OF THE EXTENT OF IMPLEMENTATION OF THE ECO POSITION

A central assumption of neoinstitutional theory is that environmental forces act to constrain organizational action, mandating specific behaviors in exchange for the social and cultural legitimacy necessary for survival (DiMaggio & Powell, 1983; Meyer &

Rowan, 1977; Suchman, 1995). This field level perspective of institutions lies in contrast to an older conceptualization of organizations as institutions (Clark, 1972; Selznick, 1948) that are “*infuse[d] with value* beyond the technical requirements of the task at hand” (Selznick, 1957: 17). While the institutions of Selznick’s perspective were far from rational actors, his recognition that firms respond to environmental cues in pursuit of specific goals constitutes a sense of organizations as meaningful in their own right and as more adaptive, deliberate, and dynamic actors (Greenwood & Hinings, 1996; Kraatz & Zajac, 1996).

Rather than exacerbating this distinction between the *old* and the *new* (DiMaggio & Powell, 1991), institutional theorists have recently begun to try and bridge the gap between the two (Suddaby et al., 2010a). Such an effort has been cited as essential for institutional theory to have a complete understanding of organizational change (Greenwood & Hinings, 1996). Of primary interest in such efforts is the need to address Stinchcombe’s (1997: 17) criticism that neoinstitutional theory “does not have the guts of institutions in it,” a reference to what was lost in neoinstitutional theory’s rejection of the old institutional theory (DiMaggio & Powell, 1991). In short, researchers are attempting to heed Stinchcombe’s advice to “ring in the old” (1997: 16) and re-inject values and meaning back into institutional theory.

Neoinstitutional theory’s focus on institutions as field level constraints minimized old institutional theory’s focus on the organization as an institution that contains value and meaning for the individuals and groups for whom it is a prominent part of everyday life (Hirsch & Lounsbury, 1997; Selznick, 1996; Stinchcombe, 1997). The argument presented in this study seeks to provide greater understanding to the values and meaning that result in tangible organizational actions, rather than focusing on the actions alone. Greenwood and Hinings (1996: 1032) advanced a similar argument in their discussion of

how organizations react to institutional forces “as a function of the organization’s internal dynamics.” By focusing on interests, values, power-dependencies, and capacity for action, Greenwood and Hinings’ (1996: 1032) goal was to “understand both persistence and change” within institutional fields:

Action is not disembodied; it comes from organizational actors who have positions, skills, commitments, and histories that are primarily found in the groups of which those actors are members. (Greenwood & Hinings, 1996: 1048)

Institutions only exist in that they are interpreted and enacted by individual actors. It is this process of “thick institutionalization” that infuses otherwise technical positions and practices with value and meaning and “lends texture to the organization” (Selznick, 1992: 235). It is a shared sense of values, “rooted in history” that “turns a formal place into a beloved institution” (Clark, 1972: 178-179). In order to survive and thrive, however, institutions need to be actively maintained (Lawrence & Suddaby, 2006; Lawrence et al., 2009)—they need to have value and meaning to specific constituents, otherwise they wither and are replaced (Oliver, 1992). This applies to institutions at either the organizational or field level of analysis. Over time, these values and experiences establish patterns of behavior that become predictive of subsequent actions.³⁷ In relation to the context of this study, this argument is particularly relevant because of the subjective nature of ethics and its role in the workplace. To the extent, therefore, that the creation of the formal ECO position by an organization represents the enactment of values in relation to ethical behavior, meaning is realized through the level of resources the organization then commits in terms of implementation. This is the “thick

³⁷ In his study of the growing influence of the NCAA on intercollegiate athletics, Stern (1979: 246) presents a similarly dynamic “process view” of network change, arguing that it is important to account for the environmental and historical context of the network in explaining any change that occurs.

institutionalization” that Selznick (1992: 235) argues is central to the idea of the organizations as an institution and moral agent.

In summary, while the institutional environment in which organizations operate defines the range of socially acceptable behavior, organizations possess idiosyncratic sets of values, prior experiences, and patterns of behavior that, I anticipate, will result in different responses to specific institutional pressures. There are many potential explanations for this relationship that include a combination of habit (Amburgey & Miner, 1992) or routines (Nelson & Winter, 1982; Ocasio, 1999), external pressure for consistency (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), and imprinting (Marquis, 2003; Stinchcombe, 1965) that, taken together, form internal constraints on subsequent behavior (Finkelstein & Hambrick, 1996; Hambrick & Finkelstein, 1987). In addition, organizations learn from their own prior experiences (Baum et al., 2000; Levinthal & March, 1981) and seek to reinforce the values around which they were constructed (Clark, 1972; Selznick, 1992). In essence, the cumulative effect of the firm’s past actions and collective set of stakeholder values shape the organizational culture (Chao & Moon, 2005). This culture acts both as a guide and a constraint, and predicts how the organization acts in relation to a given issue (such as the implementation of the ECO position), particularly in uncertain circumstances (Wilkins & Ouchi, 1983). As a result, those organizations that are more committed to ethics in general and have demonstrated this commitment by establishing a good track record of ethics performance are more likely to continue that pattern of behavior and implement the ECO position more substantively. In contrast, those organizations that have previously demonstrated a pattern of ambivalence in relation to ethics, and have a poor track record as a result, will be more likely to implement the ECO position less substantively:

Hypothesis 2a: Firms with a good track record of performance in relation to ethics and social responsibility will implement the ECO position more substantively than firms with a poor track record of performance in relation to ethics and social responsibility.

An important component of the theory presented in this dissertation is the idea that ambiguous concepts such as ethics or social responsibility, which are characterized by strong institutional pressures to conform but vague definitions of compliance, will encourage widespread adoption, but result in variation in the extent of implementation due to ambiguity surrounding their meaning, interpretation, and evaluation. While some organizations will see value in ethics only in terms of the legitimacy it generates in conforming to external calls for reform, other organizations will perceive a competitive advantage in distinguishing themselves from competitors in terms of their ethical behavior. As such, I anticipate variation in patterns of implementation of the ECO position depending on whether an organization is coerced into adopting the ECO position (following a critical ethics event), or whether it adopts the position voluntarily (in the absence of such an event), and that this effect will moderate the underlying relationship between a firm's ethics track record and its extent of implementation. Drawing on the same logic used to motivate H1b, therefore, those organizations that adopt the ECO position in the absence of a critical ethics event are likely to be more convinced of its technical value and, as a result, more likely to dedicate larger amounts of scarce and valuable resources in implementation:

Hypothesis 2b: The relationship between a good track record of performance in relation to ethics and social responsibility and the substantive implementation of the ECO position will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

The diachronic perspective adopted in this study argues that an important predictor of action is an organization's profile of values, prior experiences, and patterns of behavior. It is shared understandings that are "rooted in history" that instill a sense of loyalty among employees and meaning in organizations and determine the norms that drive behavior (Clark, 1972: 179). In terms of the implementation of the ECO position, therefore, I argue that in attempting to understand which organizations are likely to implement more substantively (by committing a significant level of resources to the position) and which organizations are likely to implement less substantively (by dedicating lower levels of resources to the position), analyzing a firm's prior behavior in relation to ethics is instructive. In addition to a firm's good track record of performance in relation to ethics and social responsibility predicting the substantive implementation of the ECO position, however, it is also likely that firms are able to learn from past ethical mistakes and respond positively.

The literature on interorganizational learning is broad and many definitions of learning exist (Huber, 1991; Levitt & March, 1988).³⁸ In addition, different kinds of learning have been identified (Huber, 1991; Levitt & March, 1988; Miller, 1996). Primarily, however, firms acquire knowledge in two ways: Either from sources that are internal to the firm, such as trial-and-error processes of exploitation and/or exploration—*experiential learning* (Levinthal & March, 1993; March, 1991); or from sources that are external to the firm, such as observing the trial-and-error processes of others, learning from their successes and avoiding their mistakes—*vicarious learning* (Huber, 1991; Miner & Haunschild, 1995). While experiential learning tends to lead to a repetition of past behaviors (Baum et al., 2000; Cyert & March, 1963; Levinthal & March, 1981;

³⁸ For extensive reviews, see: (Argote, 1999; Easterby-Smith, 1997; Fiol & Lyles, 1985; Hedberg, 1981; Huber, 1991; Levitt & March, 1988; Shrivastava, 1983).

March & Olsen, 1976; March & Simon, 1958), vicarious learning tends to introduce the focal firm to new ideas and leads to a greater variation in firm activities (Baum et al., 2000; Huber, 1991; Miner et al., 2003) and occurs when “organizations observe other organizations and copy successful routines or deduce more abstract knowledge from observing outcomes” (Miner & Mezias, 1996: 93).

The concept of *inferential learning* bridges both experiential learning and vicarious learning (Miner & Haunschild, 1995) and incorporates any systematic change in behavior or knowledge arising from experience, broadly defined (Kim et al., 2009; Kim & Miner, 2007). Miner and Mezias (1996: 93), for example, define inferential learning as emerging “from informed observation of natural variation, but also from active experimentation.” Inferential learning, therefore, allows for the observation and interpretation of your own actions as well as the actions of others, with potentially beneficial outcomes to be gained from such adaptive search (Levinthal & March, 1981). This concept of learning from prior experience, however, has received little attention within the institutions literature (Haunschild & Chandler, 2008).

Anecdotal evidence, combined with preliminary interviews that I conducted with ECOs, confirms the role played by inferential learning in relation to the implementation of the ECO position. In 2005, for example, Nortel Networks appointed a Chief Ethics and Compliance Officer following a recommendation by its Board, as one step to help the firm avoid a repeat of “‘the inappropriate accounting conduct’ that led to a restatement of the company’s financial results for 2003.”³⁹ The organization stressed its commitment to the position by announcing that the ECO would report directly to the CEO and Chair, while being given a competitive salary and bonus that was tied to firm performance.

³⁹ EC Newsdesk, ‘Ethics Officers—A Growing Breed?’ *Ethical Corporation Magazine*, February 7, 2005, <http://www.ethicalcorp.com/content.asp?ContentID=3466>

There is also evidence that similar appointments by firms such as MCI, Healthsouth, Boeing, and Tyco, whose reputations had been adversely affected by ethics transgressions, were perceived “as a way of restoring trust and credibility.”⁴⁰ Researchers have identified “reputation repair” as a powerful driver of organizational action (Rhee & Valdez, 2009).

In line with the learning argument presented above, I argue that organizations are defined by formative events in their history. It is conceivable, therefore, that an ethics transgression that is sufficiently severe could lead the focal firm to reassess its existing ethics programs and, where deficient, prompt an effort to adopt and substantively implement the ECO position. While the absence of a severe ethics transgression in its past might indicate either that a firm is virtuous or that it has been lucky, to the extent that a firm has previously committed a severe ethics transgression, it is likely to have learned from that experience and will seek to avoid a repeat event in the future. This may lead the focal firm to more fully fund the relevant department (i.e., a larger budget and more employees) and bestow greater internal legitimacy on the ECO (i.e., greater access to the board and CEO), than it might otherwise have done so. This argument suggests that firms that adopt the ECO position following a severe prior ethics transgression will be likely to implement the position more substantively.

In summary, an organization’s ethical values are formed as a result of the cumulative effect of its prior experiences and the patterns of behavior it demonstrated in response to those experiences. Formative events in the organization’s history, therefore, constitute learning experiences that play a significant role in shaping those values. In addition to learning from its successes, however, an organization is also able to learn

⁴⁰ EC Newsdesk, ‘Ethics Officers—A Growing Breed?’ *Ethical Corporation Magazine*, February 7, 2005, <http://www.ethicalcorp.com/content.asp?ContentID=3466>

from mistakes or failure (Ingram & Baum, 1997; Kim & Miner, 2007; Sullivan et al., 2007). In particular, firms are likely to learn from those mistakes that cause reputational harm (Haunschild & Rhee, 2004; Rhee & Valdez, 2009), such as a severe ethics transgression. While the absence of a severe ethics transgression might indicate on organization with either high ethical values (it never commits a transgression) or good luck (it never gets caught), I argue that the presence of a severe ethics transgression is a formative event that is likely to result in corrective action that is more genuine than it otherwise would have been.

Central to this argument, however, is the idea that large organizations are less likely to be affected by small transgressions (Haunschild & Rhee, 2004). The degree of correction the transgression is likely to generate, therefore, will depend largely on the transgression's degree of severity (Ingram & Baum, 1997; Kim & Miner, 2007; Sullivan et al., 2007). At a minimum, organizations will seek to learn from their past mistakes in order to avoid the repetition of the reputational damage caused by the prior transgression. Among those organizations that adopt the ECO position following a prior ethics transgression, therefore, the greater the severity of the transgression, the more genuine and substantive will be the organization's response:

Hypothesis 3a: Among firms that have committed an ethics transgression, the more severe the transgression, the more likely the firm will implement the ECO position more substantively.

I do not expect this relationship between prior ethics transgressions and the extent of implementation of the ECO position, however, to apply equally across all organizations. Instead, I anticipate that the effect of the ethics transgressions will depend on a more complete appreciation of the motivations driving the initial adoption decision. As such, in addition to the argument that firms learn from failure, I anticipate multiple

interaction effects that will help us better understand the relationship between prior mistakes and subsequent action.

First, as hypothesized in H1b, organizations that adopt the ECO position in the absence of a critical ethics event are more likely to be convinced of the benefit of doing so and, as a result, will be more consistently substantive in their implementation of the ECO position. While an ethics transgression is likely to shock these firms into implementing the ECO position even more substantively than they otherwise would have done so, the effect on firms that are coerced into adopting will be more muted as a result of the greater variety of motivations driving their adoption of the ECO position (indicated by the increased diversity of the extent of implementation by organizations). As such, I also anticipate that variation in patterns of implementation of the ECO position depending on whether an organization is coerced into adopting the ECO position (following a critical ethics event), or whether it adopts the position voluntarily (in the absence of such an event), will moderate the underlying relationship between a severe ethics transgression and an organization's extent of implementation of the ECO position:

Hypothesis 3b: The relationship between prior ethics transgressions and the substantive implementation of the ECO position will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

Second, I anticipate that the relationship between prior ethics transgressions and the extent of implementation of the ECO position will be supported because such a formative event is likely to alter the values of the organization, which, in turn, become predictive of subsequent behavior. In addition to the main effect hypothesized in H3a, therefore, I also anticipate that a severe transgression will enhance the underlying relationship between the organization's ethics track record and its extent of implementation of the ECO position:

Hypothesis 3c: The relationship between a good track record of performance in relation to ethics and social responsibility and the substantive implementation of the ECO position will be stronger for firms that have committed an ethics transgression.

In addition to identifying important antecedents to firm adoption and implementation behavior, in the remainder of this section I argue that the decisions taken by organizations regarding their extent of implementation of the ECO position are consequential. In particular, I argue that, rather than early adopters receiving largely technical benefits and later adopters receiving largely institutional benefits, there is a more straightforward, linear relationship between the extent of implementation and benefit—that both technical and institutional benefits accrue to those organizations that implement the ECO position more substantively.

CONSEQUENCES OF THE EXTENT OF IMPLEMENTATION OF THE ECO POSITION

Institutional theory states that organizations that adopt a practice early in its diffusion are likely to adopt for technical reasons, while those adopting later do so in search of the legitimacy gained from association with the practice (Davis et al., 1994; Fligstein, 1985; Palmer et al., 1993; Tolbert & Zucker, 1983; Westphal et al., 1997). Contained within this literature is the implicit assumption that early adopters, who adopt for technical reasons and customize the practice or policy to suit their specific needs, are likely to implement more substantively, while later adopters, who adopt for institutional reasons that focus largely on the legitimacy benefits associated with adoption, are likely to act less substantively (Boxenbaum & Jonsson, 2008; Westphal et al., 1997; Westphal & Zajac, 1994).

This argument suggests that those organizations that implement more substantively (presumed to be early actors) will receive largely technical benefits, while those organizations that implement less substantively (presumed to be later actors) will receive largely institutional or legitimacy benefits. More recently, however, researchers have begun to challenge this early/late dichotomy suggesting that benefit to an organization is not so rigidly determined (Fiss & Kennedy, 2006; Lounsbury, 2007). I seek to build on this work, suggesting that there is a more straightforward, linear relationship between extent of implementation and benefit, at least in relation to an organization's ethics activities. This argument proposes that those organizations that implement the ECO position more substantively will receive both technical and legitimacy benefits, wherever along the diffusion cycle of a particular policy or practice the adoption occurs.

If this is so, then an organization's decision regarding the extent of implementation of the ECO position will be consequential in terms of both the technical and institutional benefits associated with more substantive action, but also in terms of the potential penalties for those organizations that act less substantively and fail to dedicate a significant amount of resources to the ECO position. While prior research has established the existence of decoupling (Basu et al., 1999; Fiss & Zajac, 2004; Westphal & Zajac, 2001) and has also established that firms benefit from symbolic action (Westphal & Zajac, 1998; Zajac & Westphal, 2004; Zott & Huy, 2007), we know much less about whether, or to what extent, there are any negative consequences of symbolic action by organizations. Central to this argument in the context of this study, however, is the value of an effective ECO to an organization in managing risk in ambiguous legal and normative environments.

In addition to the state as a coercive constraint on firm behavior (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983), it has long been established that the law and legal environment combine to form an important normative influence that determines organizational structure and action (Baron et al., 1986; Dobbin & Sutton, 1998; Edelman, 1990). In particular, Edelman (1992) argues that it is ambiguous and complex legislation that drives firms to recruit experts to track external changes and interpret existing and future requirements for dissemination within the organization (Dobbin & Sutton, 1998). It is these experts who co-ordinate a firm's response to regulatory and legislative requirements and implement the different facets of compliance:

Organizations created new [Human Resource] officers not because the law dictated that they do so but because the law did not tell them what to do. (Dobbin & Sutton, 1998: 470)

Regarding the ECO position, the 1991 Federal Sentencing Guidelines were vague in prescribing “*effective* ethics programs” for organizations, failing to provide direction on how such programs should be defined or realized. Given such legal ambiguity, organizations often create a specialized position and staff it with a recognized expert, who is given the responsibility of coordinating the organization's response. Baron, Dobbin, and Jennings (1986: 374-375), for example, describe how “personnel professionals” secured their place within the workplace hierarchy by claiming expertise in relation to evaluating employee productivity and mediating labor-management relations. Edelman (1992: 1544) describes the diffusion of formal positions that signal compliance with equal employment opportunity and affirmative action law that, once established, “give meaning to law as they construct definitions of compliance within their organizations.” In terms of the evolution of human resource departments, Dobbin and Sutton (1998) demonstrate how their expansion was justified in terms of the efficiency

benefits such offices brought to the organization. More recently, Zorn (2004: 348) argues that the chief financial officer position was necessarily staffed by a financial expert because of a shift to the finance conception of control that placed “the management of stock price at the very center of corporate decision making.” And finally, and of more direct relevance to the empirical context of this study, Lounsbury (2001: 30) tracks the development of recycling programs by colleges and universities, arguing that the level of resources dedicated to staffing the programs (indicated by the creation of either a “full-time recycling coordinator” or a part-time “ecologically ambivalent custodial director”) signaled the organization’s commitment to the program. Lounsbury (2001) found that this commitment was determined by the presence of student environmental groups that raised the prominence of environmental issues, in general, and recycling, in particular, within colleges and universities.

In general, the main responsibilities of the ECO are to create and manage an organization’s ethics program. Specifically, the preliminary interviews I conducted with ECOs revealed that this involves writing and implementing the organization’s ethics code, providing ethics and compliance training to employees, executives, and board directors, dealing with inquiries to the ethics helpline and conducting investigations where necessary, and reporting levels of compliance and related ethics issues to the Board of Directors. In terms of expertise, the results of past ECOA surveys indicate that many ECOs have legal training (Weber & Fortun, 2005)⁴¹ and functional expertise in relation to ethics and compliance.⁴² This expertise qualifies them to perform the responsibilities that ECOs are given within organizations; it also serves to protect these

⁴¹ The 2000 ECOA Member Survey reported that 29% of ethics officers have a JD, while an additional 21% have either an MBA, MD, or PhD.

⁴² The 2006 ECOA Member Survey revealed that 54% of ECOs have greater than five years of ethics and compliance experience.

responsibilities from encroachment by other employees who do not have the necessary training and experience to compete. In addition to this level of expertise, however, the detail of the ECO's everyday work ensures they retain discretion over their areas of responsibility. One ECO I spoke with, for example, described his "typical day" as filled with the detail of writing and maintaining ethics policies, while policing the organization's code of ethics. As well as communicating the ethics program to employees, he is also responsible for providing ethics training and responding to all inquiries that are submitted to the ethics helpline, initiating investigations when necessary.

In terms of organizational compliance with regulatory and legislative requirements in the area of ethics, therefore, the ECO is central to organizational effectiveness. This does not preclude other aspects of ethical behavior that might occur elsewhere in the organization, but the ECO is a central driver of an organization's activities in relation to ethics. Although the Chair of the Board might comment on ethics related issues to the media, for example, or the CEO might initiate a particular ethics policy or practice within the firm, it is the ECO who is tasked with designing and implementing these policies and practices on a day-to-day basis. And, when asked what resources are vital to enable them to perform their responsibilities, the answers I obtained from ECOs were uniform—all described some form of financial support (in terms of budget and employees), together with "support from the top" (in terms of access to the CEO, senior executives, and directors). As such, in relation to ethics, I argue that the effectiveness of the ECO as a central driver of an organization's ethics activities and, therefore, the ECO's value to the firm in this respect (both technical and institutional), is determined largely by the organization's extent of implementation of the ECO position.

In support of this contention, advocates of the ECO position believe that a comprehensive ethics program helps create a stable and effective ethics culture that is beneficial for firms. In particular, they argue that the level of resources available to the ECO is directly linked to the establishment of a comprehensive and effective ethics program:

... research suggests that when appropriately designed and situated in an organization, ethics programs—and the officers who lead them—can and do make a difference. ... By contrast, a Chief Ethics and Compliance Officer who serves as window dressing likely does more harm than good, especially in times of difficulty.⁴³

In support of this argument, researchers have established a link between resource commitments to a formal position and the degree to which those programs were subsequently “actively managed” (Lounsbury, 2001: 33). It is also true that a strong organizational culture, once established, is effective as a “dominant form of control” that aids decision making for employees at the same time that it constrains choice (Wilkins & Ouchi, 1983: 469). In relation to the ECO position, I argue that the effectiveness of the ECO in implementing the different components of an ethics program is consequential for organizations in terms of motivating key stakeholders (particularly employees) and generating desired outcomes. The more substantive the implementation of the ECO position (in terms of access to scarce and valuable resources), the more effective the ECO will be in creating an ethical environment within the organization, and the greater the anticipated benefits such a culture should generate. A direct consequence of employees who are more motivated and aware of the ethical boundaries of acceptable behavior

⁴³ Foreword, ‘Leading Corporate Integrity: Defining the Role of the Chief Ethics & Compliance Officer (CECO),’ *Ethics Resource Center*, 2007, <http://www.ethics.org/resource/ceco>

within the firm, for example, is likely to be a reduction in the risk of a subsequent ethics transgression by the organization:

Hypothesis 4a: The more substantive the implementation of the ECO position, the lower the risk of a subsequent ethics transgression by the firm.

I also argue that the moderating effect of organizations that adopt the ECO position in the absence of a critical ethics event (H2b and H3b) extends to all of the hypothesized outcomes of the extent of implementation (H4 to H7). Drawing on the same logic that motivated these moderating effects above, organizations that voluntarily adopt the ECO position in the absence of a critical ethics event are more likely to be convinced of the benefit of doing so and, as a result, will likely implement the position more substantively (Haunschild & Rhee, 2004). In contrast, organizations that adopt the ECO position following a critical ethics event are more likely to be doing so because the greater institutional pressure has reduced their capacity to resist change and, as a result, will likely implement the position less substantively. Due to their greater commitment to the ECO position, I argue that organizations that adopt in the absence of a critical ethics event will be more conducive to supporting the ECO's efforts and, as a result, will be better able to convert the resources committed to the ECO position into benefit for the organization:

Hypothesis 4b: The relationship between the substantive implementation of the ECO position and fewer subsequent ethics transgressions will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

One technical aspect of the ECO position that indicates an ECO's effectiveness, and surfaced in the preliminary interviews I conducted prior to the data collection for this dissertation, is the management of the organization's ethics helpline. Section 301 of the Sarbanes-Oxley Act (2002), which covers the responsibilities of public company audit

committees, requires these board committees to establish procedures for “the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.”⁴⁴ In many firms, this reporting procedure has evolved into an ‘ethics telephone helpline’ and is now a core component of the ECO function. It is the ECO who designs and implements the helpline (even in best practice cases where operational control of the helpline is outsourced to a third-party), and it is the ECO who deals with the problems that are reported to the helpline. As a result, the helpline is an integral component of the technical aspect of an ECO’s job. It also, therefore, forms an effective measure of the ECO’s performance and value to the organization.

One ECO of a prominent financial corporation that I interviewed described his work in this area as designing how the helpline worked, managing the employees who answered the helpline, responding to the calls from employees, initiating any investigations that followed, and reporting results of these investigations to the audit committee of the board of directors. Another ECO of a Fortune 500 semiconductor company reported the breakdown of helpline contacts as 25% inquiries that are passed directly to human relations, 25% that are easily answered questions (for example, about the firm’s ethics policies and code of ethics), and the remaining 50% were a range of miscellaneous allegations of ethics violations and fraud. The SOX legislation, however, does not specify that it is a telephone helpline that should be established, just that a reporting process needs to be created. As with many aspects of an “effective ethics program,” the detail of compliance is left to the individual ECO to construct. As such, beyond the diffusion of the helpline through the ethics and compliance field as a normative practice, I argue that one measure of the technical benefit of the ECO position

⁴⁴ Section 301.4b (2002: 776), <http://www.404.gov/about/laws/soa2002.pdf>

to an organization, and a reflection of the effectiveness of its ethics program, is the level of activity of its ethics helpline.

An important aspect of the ECO's management of an ethics helpline that also emerged from my interviews with ECOs is the distinction between two different kinds of helpline contacts: *serious incidents* and *routine inquiries*. Serious incidents tend to require formal investigation by the ECO⁴⁵ (such as an accusation of discrimination, or some form of fraudulent behavior or bribery by an employee), while routine inquiries tend to be more straightforward questions about the organization's ethics policies that are dealt with relatively easily by referring to the ethics code (such as a question of whether or not an employee can accept a gift of greater than \$50 from a partner organization).

The interviews that I conducted with ECOs revealed that the management of the ethics helpline has become an integral component of an ECO's responsibilities and day-to-day activities. The ECOs I spoke with believe that the contacts that employees have with their ECO via the helpline are a direct reflection of the ECO's ability to generate an 'ethical culture' within the organization, which is connected to the ethical behavior of its employees (and, therefore, for the potential for ethics misconduct to occur and be reported). As a result, I argue that the extent to which an organization is committed to the ECO position will have direct consequences in terms of the volume and nature of ethics helpline contacts.

As a measure of ECO performance, I asked the ECOs I interviewed whether they expect an organization that is committed to its ECO position to have higher or lower incidents of both kinds of helpline contacts. What emerged from the discussions were two organization level measures of the consequences of the extent of implementation of the

⁴⁵ This investigation may be conducted either by the ECO or by another department within the organization, such as human resources (in the case, for example, of an accusation of discrimination regarding a promotion).

ECO position: the *total number of contacts* and the *proportion of serious incidents* reported via an ethics helpline.

In terms of the total number of ethics helpline contacts, I predict a curvilinear relationship, with both more and less substantive ECO positions resulting in lower numbers of contacts, while moderately implemented ECO positions see higher numbers of contacts. While a symbolic ECO position and ineffective ethics program will result in a lower number of contacts (because employees are unaware of the details of the organization's ethics code, remain skeptical of management's commitment to ethics, and suspicious of the potential for retribution for "causing trouble"), in a substantive ECO position and well established ethics program (where the ethics code is common knowledge among employees and the boundaries of acceptable ethical behavior are well-established) the number of contacts will be similarly low because fewer questions need to be asked and fewer transgressions occur. An organization that commits moderate levels of resources to its ECO and has a reasonably effective ethics program, however, is likely to see higher numbers of helpline contacts as awareness of the organization's ethics program, belief that management is committed to the program, and confidence that reporting incidents to the helpline will be anonymous and go unpunished by management are all unevenly distributed among employees:

Hypothesis 5a: The relationship between the extent of implementation of the ECO position and the total number of ethics helpline contacts is curvilinear, with both more and less substantive implementation resulting in fewer routine inquiries than moderate implementation.

Hypothesis 5b: The relationship between the extent of implementation of the ECO position and the total number of ethics helpline contacts will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

In terms of the proportion of serious incidents reported via the helpline (as opposed to routine inquiries), I anticipate a linear relationship, with less substantive ECO positions resulting in a higher proportion of serious incidents reported to its ethics helpline. In organizations that do not commit high levels of resources to the ECO position, as argued above, the willingness and confidence in the value of reporting incidents to the helpline among employees is likely to be low. In such an atmosphere, it is only the most severe transgressions that are likely to be reported—cases where the individual reporting the transgression is either so appalled by the behavior of others, or sufficiently affected by the behavior to attempt to seek redress. As a result, the contacts that these organizations receive via their helplines are likely to be overwhelmingly serious in nature. In organizations where the ECO receives high levels of support and, as a result, has been able to establish an effective ethics program, however, there is likely to be a greater willingness to interact with the ECO via the helpline if necessary. In such organizations, while employees will feel less need to submit routine inquiries (because they are aware of the ethical boundaries of the organization), they also will be less likely to witness and experience incidents of serious ethics transgressions (because an ethical culture is more firmly entrenched within the organization). As a result, I anticipate that the proportion of serious incidents among all incidents reported to the helplines of organizations that have substantively implemented the ECO position will be lower than those organizations that have implemented the position less substantively:

Hypothesis 5c: The more substantive the implementation of the ECO position, the lower the proportion of serious incidents reported via the ethics helpline.

Hypothesis 5d: The relationship between the implementation of the ECO position and the proportion of serious helpline incidents will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

A pure interpretation of early neoinstitutional theory identifies the environment as a constraint on organizational behavior (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). The search for legitimacy is a means by which organizations placate this constraining influence, turning it to their advantage (Dowling & Pfeffer, 1975; Suchman, 1995). By shaping its formal structure to meet external expectations, an organization reflects the socially constructed reality of its operational environment (Berger & Luckmann, 1967).

One way in which society passes judgment on an organization's performance is in terms of its reputation and, as a result, a good reputation has long been thought of as an organizational asset (Fombrun & Shanley, 1990; Shapiro, 1983).⁴⁶ Fombrun (1996), for example, identifies reputation and brand identity as key components of a firm's strategic competitive advantage. A firm's reputation, he argues, contains value. It attracts customers, investors, employees, and the positive affect of stakeholders in general; it provides a firm with a degree of security in an otherwise turbulent and competitive business environment. Firms need to compete in order to establish "reputational capital" (Fombrun, 1996: 10), which is derived from the firm's ability to address the economic and social demands of stakeholders, broadly defined. Firms then need to work hard to manage and maintain that reputation. Once established, the maintenance and defense of a good reputation become "vital strategic concerns" (Fombrun, 1996: 7).

The reputation literature has identified a number of benefits that have been shown to accrue to firms with high reputations, such as higher sales (Shapiro, 1983), easier access to capital (Stuart et al., 1999), and greater survival rates (Rao, 1994). In addition, a firm's reputation is recognized as a valuable, rare, imperfectly imitable, and non-substitutable organizational asset that generates competitive advantage (Barney, 1991;

⁴⁶ See Haunschild and Rhee (2006) for an example of when a firm's good reputation represents a liability.

Deephouse, 2000). There is also evidence of a moral component to firm reputation—that, in evaluating a firm’s reputation, stakeholders adopt an holistic perspective of all aspects of behavior (Jones, 1995) and that those firms able to establish “moral capital” among stakeholders are rewarded (Godfrey, 2005). As such, an organization’s attempts to manage its public image are recognized by researchers and valued by managers as having important implications for a firm’s performance “in an imperfect information world” (Shapiro, 1983: 659).

It is important to emphasize, however, that, rather than a characteristic of the firm, reputation constitutes a reflection of environmental or stakeholder perceptions of the firm and its operations (Fombrun & Shanley, 1990; Fombrun, 1996). It is an aggregate evaluation by the firm’s various stakeholders of the firm’s performance in relation to product quality and its visibility, or salience (Rindova et al., 2005). The media, in particular, play a central role in identifying events that gain attention (Hoffman & Ocasio, 2001) and building firm reputation and celebrity status (Rindova et al., 2007) that, in turn, create greater economic opportunities (Rindova et al., 2007; Rindova et al., 2006). A firm’s reputation, therefore, is a multi-dimensional social construct (Rao, 1994; Rindova & Fombrun, 1999) that is widely evaluated and compared across firms (Fombrun, 2007; Fombrun et al., 2000). As such, changes in reputation represent an important potential consequence for organizations that perform well or poorly in relation to metrics that are valued by stakeholders. I argue that one such metric is an organization’s ethical behavior (perceived or real).

The reputation literature suggests that any firm that has an existing positive reputation has an incentive to maintain it, while firms with lesser reputations have an incentive to improve their social standing. Higher reputation firms are likely to act to protect their reputations and are unlikely to do anything to endanger this asset (Shapiro,

1983). Adopting a view of reputation as a social construct implies that, in order to maintain their perceived status within society, higher reputation firms need to conform to societal expectations and will be punished for actions that contradict, or are even merely perceived to contradict, these expectations (Fombrun & Shanley, 1990). Any behavior that is discovered to be lacking substance poses a threat to an organization's standing because it has the potential to alter the balance of trust between the firm and its stakeholders (Hill & Jones, 1992; Jones, 1995). Such action, therefore, is likely to be avoided by those firms that have the most to lose—higher reputation firms. This logic applies especially to issues of ethics, social responsibility, and regulatory or legal compliance that are directly related to a societal level evaluation of firm behavior, and suggests that the more substantive the implementation of the ECO position, the higher the reputation benefits for the focal organization.

To the extent, therefore, that external constituents believe the organization is conforming to expectations (whether that action is more or less substantive) value is created (Edelman, 1992; Edelman, 1964; Fiss & Zajac, 2006; Langley, 1989; Swidler, 1986; Westphal & Zajac, 1998, 2001; Zajac & Westphal, 1995; Zajac & Westphal, 2004). Ravasi and Rindova (2008: 271), for example, argue that “consumption increasingly performs a communication function,” allowing consumers to express their status and identity in a way that contains symbolic value above and beyond the functionality of the product. Similarly, Feldman and March (1981: 177) explain the symbolic value of information, which “is not simply a basis for action. It is a representation of competence and a reaffirmation of social virtue.” Behavior that has symbolic value is one of the primary means by which organizations can secure the legitimacy that they need for long term survival (Dowling & Pfeffer, 1975). Pfeffer (1981a), for example, describes an increasingly complex global business environment in which managers are less able to

influence an organization's substantive action, which is largely determined by relations of power and resource dependence. Where they can have a direct influence, he argues, is in helping define how those substantive actions and the organization itself are perceived by external constituents.

It is important to note, however, that "Symbols are only effective to the extent that meaning becomes invested in the symbols" (Pfeffer, 1981a: 47). To the extent that the creation of the formal ECO position by an organization acts as a signal to stakeholders of its attendance to their ethics concerns, I argue that meaning is invested through the extent of the position's implementation. While all organizations that implement the ECO position, either more or less substantively, might expect to receive legitimacy benefits as a result, the argument above suggests that reputational benefits will be greater the more substantive the extent of implementation.

This argument should be particularly true for a measure of reputation that captures an organization's standing among its peers. At an organizational level of analysis, it is known that organizations form networks (Nohria & Eccles, 1992) and that these ties matter (Haunschild & Beckman, 1998)—they form relations of opportunity and value, along which information (Burns & Wholey, 1993; Haunschild, 1993; Palmer et al., 1993) and resources (Pfeffer & Salancik, 1978) travel. Of particular interest, executives and directors in organizational networks are believed to discuss both successes and failures among themselves, learning from the experiences of their peers and using that knowledge to help shape their own organization's policies and practices (Beckman & Haunschild, 2002; Davis, 1991; Haunschild, 1993; Rao et al., 2000). There is no reason to believe that this is any less the case with an issue such as ethics. If anything, given the high profile that ethics has received in recent years (especially since the business scandals around the turn of the century and the controversy surrounding legislative responses, such as

Sarbanes-Oxley), it is likely to be a topic of heightened interest among executives of firms that are susceptible to institutional pressures to conform to shifting societal expectations in this area (Donaldson, 2003). If true, it is reasonable to expect that the ethics-related activities of organizations are of interest to other organizations and that examples of best practice are of particular interest. The more effective the ECO and established an organization's ethics program (i.e., the more substantive the implementation of the ECO position), the lower the organization's risk of committing an ethics transgression (H4a), and the higher the expected standing of the organization in the eyes of its peers:

Hypothesis 6a: The more substantive the implementation of the ECO position, the greater the positive change in reputation of the firm.

Hypothesis 6b: The relationship between the implementation of the ECO position and reputation will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

There is evidence to suggest that firms are able to learn from others' successes (Haunschild & Miner, 1997) and mistakes (Haunschild & Sullivan, 2002; Rhee & Haunschild, 2006) and that it is "local failure-related experience" that enhances learning of greater value (Kim & Miner, 2007: 687). In addition, researchers have argued that organizational crises spread beyond organizations that have "direct exchange relationships with the stricken organization" (Yu et al., 2008: 452). Awareness about such crises are spread by "external institutional intermediaries [that] include the popular press, governance watchdog groups, academics, financial analysts, and regulatory bodies" (Yu et al., 2008: 453).

To the extent, therefore, that an organization has a (positive or negative) reputation for ethical behavior among other executives and directors due to the level of

resources it commits to the ECO position (H6a), this knowledge should also diffuse among other external stakeholders. In particular, this information should be of interest to those stakeholders whose job it is to observe and evaluate the organization's behavior and who communicate regularly with those same executives and directors. Prior research demonstrates the role the business media plays as a conveyor of ethics transgressions by organizations (Miller, 2006; Weaver et al., 1999a). Given the increased attention ethics has received in recent years and the increased pressures on organizations to act more ethically that have resulted from this attention (Donaldson, 2003), it is likely that substantive actions designed to improve ethical behavior will be received positively by the media and might contribute to the celebrity status of favored organizations (Pfarrer et al., 2010; Rindova et al., 2006). If true, I anticipate that the more resources a firm commits to the ECO position, the more positive the media coverage that firm will receive:

Hypothesis 7a: The more substantive the implementation of the ECO position, the more favorable the subsequent media coverage of the firm.

Hypothesis 7b: The relationship between the implementation of the ECO position and subsequent media coverage will be stronger for firms that adopt the ECO position in the absence of a critical ethics event.

In the next section of this paper, I outline the methods I use to examine the hypothesized antecedents and consequences presented above.

Methods

The sample I use to test these hypotheses is the population of organizations that are members of the Ethics and Compliance Officers Association (ECOA). The ECOA was founded in 1992 to represent the interests of ECOs and describes itself as “the largest group of business ethics and compliance practitioners in the world.” I was granted permission to design an online survey of the ECOA’s membership, which I conducted from late 2008 to early 2009. As such, the timeframe for my study was 1990 to 2008. While researchers have published information about ECOs based on limited information from prior ECOA surveys that the Association made publicly available (e.g., Weber & Fortun, 2005), to my knowledge, no academic researcher has previously gained the ECOA’s permission to design and administer a survey directly to its members. As such, this survey constitutes a unique source of data for my dissertation and, in particular, the main theoretical variable of interest—the extent of implementation of the ECO position.⁴⁷ I supplement these data with other datasets (containing both primary and secondary data) to form the other variables in my analyses.

In preparation for the ECOA survey and background research for this study, I conducted telephone interviews with ECOs from a representative sample of ECOA member organizations to generate, *a priori*, the antecedent and outcome variables from which I developed my hypotheses. This inductive method of survey and theory development has been used by other researchers in areas related to ethics and social responsibility where there is minimal extant research within the organizations literature

⁴⁷ In addition to my main variable of theoretical interest (the extent of implementation of the ECO position at the point of adoption), I draw on this survey to construct one of the variables I use to measure the consequences of the implementation decision (ethics helpline activity). This issue, together with my reliance on a survey to collect historical data, raises the potential for a number of potential methods biases that I address in detail below.

(Lounsbury, 2001; Stevens et al., 2005). Following two rounds of pilot tests with ten senior ECOs, the survey was launched at the ECOA's 2008 annual conference. The survey was administered online, with initial invitation e-mails sent in September, 2008 and reminder invitations sent in late 2008 and early 2009. Phone calls to partial respondents were made in March, 2009. The Invitation to Participate letter that was sent by e-mail to all the ECOA's members from the Association's Executive Director, Keith Darcy, is reproduced in Figure 4.

Insert Figure 4 here

The survey was sent to all the ECOA's 1,269 individual members, with respondents asked to complete the survey from the perspective of their organization's senior ECO. Of the ECOA's 559 organizational members, I received responses from members belonging to 309 unique organizations (55.3%), of which 289 were largely complete (51.7%).⁴⁸

INSTITUTIONAL WAVES

At the field level of analysis (H1), I am interested in the relationship between a critical ethics event and both the *adoption of the ECO position* and the *diversity of implementation of the ECO position* among the ECOA's organizational members.

Adoption of the ECO position. This variable is measured as the year in which an ECOA member organization adopted the ECO position. These data are self-report answers to the survey question: "In which year did your organization first create a

⁴⁸ The survey was sent to all the ECOA's individual members. A large proportion of the ECOA's organizational members, however, have only one individual member. As such, the majority of organizational responses were from single respondents. In all cases, the data were coded to identify a primary response per organization. Criteria such as the response's completeness, the respondent's title, and whether they worked at HQ determined primacy.

position to deal with ethics and compliance issues?” For my regression analyses, this variable was coded as 0 in the years prior to adoption and 1 in the year in which adoption took place, after which the firm was excluded from the dataset as it was no longer at risk of adopting. The distribution of adoptions of the ECO position across the organizations in my dataset is presented in Figure 5.

Insert Figure 5 here

Diversity of implementation of the ECO position. This variable captures both the scale and scope of resource commitments by different organizations that adopt the ECO position in a given year—ranging from more substantial (with a significant budget, a large number of employees, and frequent access to the CEO and Board) to less substantial (with a small budget, minimal employee support, and little or no access to the firm’s executives and board members).

The possession, allocation, and use of resources is an important means of control within an organization (Pfeffer & Salancik, 1978: 48-49). As such, access to resources is understood by management researchers to be a source of power and legitimacy (Cyert & March, 1963; Pfeffer, 1981b). This is true in terms of tangible resources, such as a department’s budget (Covaleski & Dirsmith, 1983), as well as intangible resources, such as access to influential others in an organization (Sparrowe & Liden, 1997).

More specifically, the organizations literature also discusses access to resources as evidence of organizational commitment to a position (Lounsbury, 2001; Sine & Tolbert, 2007). Lounsbury (2001), for example, studied the creation of recycling programs at universities and the appointment of an environmental officer to oversee such programs. He argued that the level of organizational commitment could be estimated by whether the position was newly created and full-time, or assigned to an employee with

existing responsibilities. Similarly, Sine and Tolbert (2007) looked at the percentage of a university's faculty that were hired as tenure track positions and equated the extent of implementation as dependent on the degree of resources the university had to devote to hiring faculty. In addition, Easton and Jarrell (1998: 264) focus on the performance implications for firms that adopted TQM between 1981 and 1991, measuring the "extent of deployment" by evaluating the number of employees the firms had committed to the practice, together with the degree of training the firm had given those employees. Finally, Westphal, Gulati, and Shortell (1997), who also studied the diffusion of TQM during a similar period (from 1985 to 1993), highlight the level of resources hospitals devote to the practice's implementation in terms of the degree of customization. Taken together, this work suggests that the relative amount of resources that top executives are willing to grant to specific departments within an organization is a reasonable indicator of the level of importance ascribed to the individuals or work being conducted in that department (Pfeffer, 1981b).

In the case of ECOs, access to "adequate resources, appropriate authority, and direct access to the governing authority"⁴⁹ is identified by the U.S. Sentencing Commission as an integral component of an "effective" organizational ethics program. While, like other aspects of the Guideline's specifications of what constitutes an "effective" ethics program, the definition of "adequate" is vague, I operationalize the extent of implementation by an organization as a relative measure: All else equal, the greater the ECO's access to valuable resources, the greater the organization's

⁴⁹ U.S. Sentencing Commission, '2005 Federal Sentencing Guidelines,' http://ftp.usssc.gov/2009guid/8b2_1.htm

commitment to the position and the more genuine and effective its implementation following adoption.⁵⁰

Based on the interviews I conducted with ECOs in preparation for my survey, all confirmed that the most important resources for them to perform effectively are financial, combined with support from their firm's leadership. For example, one ECO at a large semi-conductor multinational said that the "support of the senior management and board," together with "sufficient budget and employees" are vital for him to do his job. This was supported by the Chief Operating Officer at the ECOA, who said that "dedicated staff" and "support from the top" are crucial "because there will be other senior people who do not believe." As a result, I created this variable using five survey questions that identify the ECO's total annual budget, the number of full-time employees and the number of part-time employees that work for the ECO, the number of times a year the ECO meets formally with the CEO, and the number of times a year the ECO meets formally with the Board of Directors or one of its sub-committees. The ECOs I interviewed confirmed that these measures are effective operationalizations of the implementation construct. The survey asked for this information for the current year (2008) and, where different, for each of the first three years following adoption of the ECO position.⁵¹

⁵⁰ It is important to emphasize here that I am measuring organizational commitment to the *ECO position*, rather than to *ethics* per se and argue that this commitment is demonstrated in terms of the level of scarce resources (money, employees, and CEO and director time) the organization dedicates to the ECO. I make no claims about aspects of ethical behavior that occur elsewhere in the organization, but the combination of interviews I conducted with ECOs, discussions I had with the ECOA, additional background research, and anecdotal evidence suggests that the ECO is the central driver of organizational activities in relation to the specific ethical activities highlighted in this study (e.g., writing the organization's ethics code, managing its ethics helpline, conducting ethics training, etc.).

⁵¹ The only exception to this is the ECO's budget. For this measure, I asked for the ECO's annual budget for each year since the ECO's organization established the position.

In order to investigate the extent to which these variables represent a latent construct that indicates the extent of implementation by the organization with respect to the degree of resources dedicated to the ECO, I conducted an exploratory factor analysis with a principal component factor extraction method and promax oblique rotation (Weaver et al., 1999a: 48). As anticipated following my interviews with ECOs who emphasized the importance of both financial and top management support, the five measures loaded cleanly onto two factors with eigenvalues greater than 1, which I labeled *financial support* and *TMT support*. The Kaiser-Guttman rule of retaining factors with eigenvalues greater than 1 ensures each factor has a variance at least as large as one of the standardized original variables and factor loadings of 0.5 and above ensure clean factor structure. I used an oblique rotation due to the interrelated nature of the different components of the implementation data.

The data generated by my survey targeted implementation at two points in time—in the first three years following ECO adoption as well as the current year, 2008. Due to missing survey responses across variables, however, forming these factors reduced my number of observations. In order to preserve statistical power, I imputed missing values for these implementation variables, inserting the SIC 1 digit means obtained from the known observations. SIC 1 digit averages are more meaningful than overall average values because they control for variance across industries. While having the advantage of retaining statistical power, using group values to impute data also reduces overall variance and, as such, represents a more conservative test of my hypotheses (McKnight et al., 2007). I compared the averages, maxima, and minima of each year of the raw data to the averages, maxima, and minima of the imputed variables I created to ensure this procedure did not result in any significant distortion of the data.

I conducted two factor analyses—first, to assess the extent of implementation in the first three years following adoption and, second, to assess the extent of implementation in 2008. In both cases, the variables loaded cleanly onto two factors. The results of the two factor analyses are presented in Table 1. The inter-factor correlations are 0.16 and 0.17, respectively. These two factors, together, represent the *extent of implementation of the ECO position* by a firm.⁵²

Insert Table 1 here

I then constructed the *diversity of implementation of the ECO position* variable using the coefficient of variation (Harrison & Klein, 2007; Sorensen, 2002), which has been used widely as a measure of organizational diversity (e.g., Beckman & Haunschild, 2002) and is calculated by dividing the standard deviation of the extent of implementation of all organizations that adopted the ECO position in a given year by the mean of those implementation scores. I calculated the coefficient of variation by year and SIC 1 digit level in order to create greater variance on my dependent variable and to control for industry-specific effects on implementation diversity.

Critical ethics event. Preliminary interviews with ECOs identified events that occurred in four years (1991, 1996, 2002, and 2004) that were instrumental in the diffusion of the ECO position among organizations. Together, these events constitute a set of critical ethics events that I predict will affect the two dependent variables in H1 (*adoption of the ECO position* and *diversity of implementation of the ECO position*). Each of these four variables was formed as a step function that was coded as 0 in the

⁵² In order to minimize the undue influence of outliers, I winsorized these two implementation variables by identifying the 1st and 99th percentiles and substituting these values for those values that were lower or higher, respectively. It has been demonstrated that the efficiencies of the mean and standard deviation of distributions of winsorized variables are “scarcely distinguishable from those of best linear estimators” (Dixon, 1960: 385).

years leading up to the event and 1 in the year of the event. These variables retained a coding of 1 in the years after each event in order to test their continued influence over time.

The timing of an organization's adoption of the ECO position is also a moderator in the rest of my hypotheses (H2-H7, detailed below). In order to interact this variable with my other variables of interest, I calculated adoption in the absence of a critical ethics event by coding a dummy variable 0 if adoption by an organization occurred in the year or year after each of the four events (i.e., 1991, 1992, 1996, 1997, and 2002-2005) and 1 in all remaining years to capture those firms that adopted the position in the absence of these institutional forces.⁵³ Given that I do not have the specific date of adoption, I assumed adoption occurred at the mid-point in the year reported in my survey responses and reasoned that, given the significance of the events for the diffusion of the ECO position, each event would have an effect that extended beyond the year in which it occurred to also include the following year.

ANTECEDENTS OF THE EXTENT OF IMPLEMENTATION OF THE ECO POSITION

At the organizational level of analysis (H2 to H7), the main variable of theoretical interest in this study is the *extent of implementation of the ECO position* by a firm (detailed above). A central component of my dissertation is the identification of specific antecedents that predict ECO implementation—in particular, the firm's *ethical track record* and its *prior ethics transgressions*.

⁵³ In order to investigate possible effects generated by alternative codings, in separate regressions, I coded this variable as 0 in the year of the event only (i.e., 1991, 1996, 2002, and 2004) and 0 in the year after each event only (i.e., 1992, 1997, 2003, and 2005). The coding of both year and year after (as described above and reported below) generated the best results, although the results obtained using the other codings were not significantly different.

Ethical track record. I have argued that an organization's values, prior experiences, and patterns of behavior will predict the extent to which it implements the ECO position. Johnson & Johnson, for example, often refers to its *credo* (which lists its stakeholders in order of priority: customers, suppliers and distributors, employees, communities, and stockholders) in order to decide among conflicting stakeholder demands and complex problems that arise. As the firm's website states:

Our Credo is more than just a moral compass. We believe it's a recipe for business success. The fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change is proof of that.⁵⁴

In addition, Unilever's CEO, Patrick Cescau, states that he sees the firm's values as central to it reclaiming the level of performance and market position he is aiming for and believes the firm has lost in recent years:

I want to be remembered as the first CEO, the one that transformed Unilever and brought it back to its former glory. ... We had forgotten some of our values, who we are, what makes us a different company. Our commitment to sustainability, to vitality, was always there but we were not recognizing it as a source of strength and source of difference the way we do today.⁵⁵

It is perhaps not surprising, however, to hear a CEO state that "our values are central to everything we do." From an empirical perspective, therefore, it is important to be able to distinguish between the symbol and substance of organizational actions. I argue that using an objective, third-party evaluation of an organization's prior performance in relation to ethics and social responsibility issues represents an effective

⁵⁴ <http://www.jnj.com/connect/about-jnj/jnj-credo/>

⁵⁵ Michael Skapinker, 'Taking a hard line on soft soap,' *Financial Times*, July 7, 2008, p12.

proxy for the values that guide its behavior on a day-to-day basis. As such, the data for this independent variable come from a dataset produced by the independent research firm Kinder, Lydenberg, and Domini (KLD).

The KLD dataset, which has been produced annually since 1991 and widely used for academic research (e.g., Graves & Waddock, 1994; Mattingly & Berman, 2006; Ruf et al., 1993; Sharfman, 1996; Waddock & Graves, 1997), consists of ratings on several aspects of a firm's ethics and social responsibility activities that are evaluated by a panel of experts. In generating each firm's profile, KLD evaluates the performance of the firm over the previous 12 months in relation to a number of different "social screens" that are grouped together in four areas of interest: environmental ratings, social ratings, governance ratings, and controversial business involvement. The environmental screen consist of an evaluation of the firm's performance in relation to areas such as climate change, pollution, and recycling; the social screen covers areas such as philanthropy, employee diversity, employee relations, and human rights; the governance screen addresses specific questions about transparency, accountability, and executive compensation; and the controversial business involvement rating is weighted against firms that operate in areas KLD has labeled "controversial," such as alcohol, tobacco, and firearms.⁵⁶

Each firm is evaluated annually and total scores of the organization's strengths and weaknesses (concerns) in terms of seven separate indicators are reported: community relations, corporate governance, diversity, employee relations, the environment, human rights, and products. All scores are entered as non-negative integers with a lower bound of 0, with the potential range of scores differing across areas. For the years of my study,

⁵⁶ The components of this final area have fluctuated significantly over the period of the KLD ratings (e.g., business involvement in South Africa was initially included, but later dropped). To preserve comparability across time, this fourth category was excluded from my analysis.

for example, human rights strength scores ranged from 0 to 2, while diversity strength scores ranged from 0 to 7. Alternatively, diversity and community relations concerns scores ranged from 0 to 2, while environment concerns scores ranged from 0 to 6. The higher and more positive the strength score, the more ethical and socially responsible KLD assesses the firm to be. Conversely, a higher concerns score represents an overall assessment that the firm is performing poorly in relation to ethics and social responsibility issues.

I argue that the KLD data represent a reasonable proxy for an organization's values, prior experiences, and patterns of behavior. My assumption in doing so is that values and beliefs are realized in systematic patterns of activity over time. While firms may decouple actions from underlying value and beliefs, such behavior becomes harder to maintain over the long term, particularly when being evaluated by third party observers who are keenly interested in a specific area and sensitive to the prospect of any duplicity. In addition, the KLD data measures "corporate social action," rather than "corporate social performance"—i.e., actions rather than outcomes (Mattingly & Berman, 2006: 41). As such, the KLD score is essentially an indicator of a firm's reputation or status,⁵⁷ held by external stakeholders, based on the firm's underlying attitudes (both perceived and real) to ethics and social responsibility.⁵⁸ I seek to build on prior research demonstrating that status predicts the extent of implementation (Sine & Tolbert, 2007), by extending this relationship to the area of organizational ethics.

⁵⁷ The concepts of status and reputation are not easily disentangled empirically (Sine et al., 2003; Washington & Zajac, 2005). In order to avoid issues of definition, over which there is still much debate, I adopt the position taken by many reputation scholars who treat the two concepts as highly correlated with each other (Porac et al., 2002; Rindova et al., 2006; Rindova et al., 2005).

⁵⁸ As a measure of ethical reputation, the correlation between the KLD variable (H2) and the Fortune measure of reputation (H6) is of interest for my analyses. Prior research, however, has demonstrated that Fortune is not highly correlated with KLD data (Szwajkowski & Figlewicz, 1999), a finding that is supported by the pairwise correlations I report in Table 4.

For this study, I draw on data from KLD's complete dataset (KLD reports that it researches "over 3,000 U.S. corporations for social and environmental performance on more than 280 data points"), which has "become the standard for quantitative measurement of corporate social action" (Mattingly & Berman, 2006: 28). In any third-party evaluation of firm behavior, however, construct validity is a concern. Inevitably, the KLD data are, to a degree, subjective evaluations that reflect the biases of the evaluators. In using these data as a proxy for firms' ethical and socially responsible behavior, therefore, prior researchers have also investigated the construct validity of the KLD data (Ruf et al., 1993; Sharfman, 1996; Szwajkowski & Figlewicz, 1999). Of particular note in this stream of work is Mattingly and Berman's (2006) empirical analysis, which determined that, contrary to prior research that has tended to combine the KLD data to calculate weighted overall scores for CSR performance (Graves & Waddock, 1994; Ruf et al., 1993; Waddock & Graves, 1997), the KLD strength and concern scores are empirically distinct and that, as such, summing these two scores in order to produce an overall CSR score will confound results. As such, I use the KLD data to develop two separate variables—*KLD strengths* and *KLD concerns*.

One complicating feature of the KLD data is that the seven different categories contain different numbers of sub-categories (e.g., the environmental strength category has 7 sub-categories, while the diversity concern category has only 3 sub-categories) and, as such, cannot be compared directly (Mattingly & Berman, 2006). Prior to summing the KLD strengths and KLD concerns scores, therefore, I first transformed each data point to its *z* score (or standard score) by subtracting the mean of the component and dividing by its standard deviation. This procedure generated fourteen comparable measures (seven strengths and seven concerns). I totaled the strength *z* scores to create the *KLD strengths* variable and totaled the concern *z* scores to create the *KLD concerns* variable.

Due to the limited number of public firms in my dataset and the fact that not all of these firms had KLD strengths and concerns scores for all the years of my study, I imputed missing KLD data for those firms that had scores for some, but not all, of my years of interest, using the average of those scores that were available. For firms that were not rated by KLD, I coded those firms' scores as 0 and I created a dummy variable (*KLD dummy*) to identify those observations in which this transformation occurred. Creating a dummy variable to indicate those values that were substituted and including that dummy as a control in the final regression model "partials out or eliminates the variance in the dependent variable that is attributable to missing data" (McKnight et al., 2007: 169). In other words, imputing data in this way preserves observations with missing values, yet removes any bias associated with assigning a zero score (Greene, 1997).⁵⁹

In order to capture the cumulative effects of an organization's ethical track record on its subsequent behavior, I constructed weighted lagged variables. The data I collected across a seven-year window (consisting of the three years prior to and the three years post adoption of the ECO position) allowed for a maximum of a three year lag predicting the extent of implementation in the period immediately after adoption. In order to account for the cumulative effects of these different lags, while emphasizing the stronger influence of more recent events, I constructed weighted variables that discount the effects of specific events over time (Henderson & Stern, 2004). I selected a discount weight of 1 for the year of adoption, 0.85 for events that occurred in the previous year, 0.7 for events two years prior to adoption, and 0.55 for events three years prior. These weights were applied to the different lags to generate two variables (one each for KLD strengths and KLD

⁵⁹ As an alternative to coding data for those organizations without ratings as 0, I also tried using the SIC 1 digit average and, in those instances where industry was not reported, I used overall mean substitution for missing values. This alternative imputation did not substantively change my results.

concerns) that I entered into my models. The model fit was best for this weighted lag structure and these results are presented below, but similar results were also obtained using alternative lag weights (e.g., 1, 0.9, 0.7, and 0.5; 1, 0.8, 0.6, and 0.4; 0, 1, 0.85, and 0.7; and so on) as well as a cumulative sum of the three years without any weighting.

Prior ethics transgressions. In H3, I hypothesize that the prior behavior of an organization is predictive of its subsequent behavior. In particular, I argue that prior ethics transgressions by an organization will affect its subsequent extent of implementation of the ECO position. In order to identify transgressions by a firm, I first conducted a search of articles using the archival database Factiva that appeared in five prominent business newspapers: *Wall Street Journal*, *Financial Times*, *BusinessWeek*, *Fortune Magazine* and *Forbes Magazine*. Newspaper articles, in general, have been utilized in several academic studies as representative of the institutional environment that influence organizational action (Deephouse, 2000; Mezias & Boyle, 2005; Sine et al., 2005) and have also been used to identify “a firm’s ethical failings” (Weaver et al., 1999a: 48; 1999b). Researchers recognize that the media are able to raise levels of attention surrounding specific events (Hoffman & Ocasio, 2001) and also reflect “patterns of market action” by organizations (Rindova et al., 2007: 34). In addition, these newspapers are widely recognized as distinguished sources of business news and have been similarly utilized in previous academic studies (Greenwood et al., 2005; Haunschild & Beckman, 1998; Hirsch, 1986). As such, I contend that a search of relevant articles that appeared in these national business publications represents an effective indicator of serious ethics transgressions linked to a specific organization (Miller, 2006).

I used the Factiva database to collect all articles that mention each of the firms for which I had survey responses over a seven year window that ran from three years prior, to three years post adoption of the ECO position and, where different, from 2005 to 2008.

This window varied for each firm depending on when they adopted the ECO position. If a firm adopted in 1996, for example, I collected all articles related to that firm from 1993 to 1999 and from 2005 to 2008. This protocol resulted in a dataset of 113,402 total articles. For my analyses, however, I used only the articles in which the focal firm was mentioned in the headline or first paragraph, which is a better indicator of the extent to which the firm is a feature of the article, rather than merely being mentioned.⁶⁰ This refined dataset consisted of 98,249 articles for the 214 firms.

In order to construct the *prior ethics transgressions* variable, I then searched within this larger set of articles for reports of a transgression by each firm in the three years prior to its adoption of the ECO position. Building on prior academic work (Sullivan et al., 2007), an *ethics transgression* was defined using a list of actions compiled in extensive consultation with the ECOA's directors (all experienced ECOs). The goal was to form an objective list of organizational actions that any ECO would consider to be "unethical." Based on this list, I then surveyed 40 ECOs attending the ECOA's 2009 annual conference, asking them to assess the severity of each action on a 1 to 5 scale (1 = least severe, 5 = most severe) by drawing on their experience as an ECO. The complete list of actions and their severity is presented in Table 2. The relatively low standard deviations in Table 2 (maximum = 1.29) indicate the extent of expert agreement on the severity of each action—the smaller the standard deviation, the greater the consensus among survey respondents. Bribery, for example, whether in the U.S. or overseas, had the lowest standard deviation (0.77) and, therefore, the greatest consensus among ECOs that it is the most severe form of ethics transgression a firm can commit.

Insert Table 2 here

⁶⁰ In separate regressions, I ran models based on the larger set of articles in which the firm was merely mentioned (wherever in the article the mention occurs), with little change in my results.

Using the list of actions in Table 2, I asked five colleagues to suggest keywords that I could use to search for transgressions among the larger set of Factiva articles. I compiled these terms into a list that I used to run test searches for each of the ethics transgressions in Table 2. Then, using The Corpus of Contemporary American English (<http://www.americanacorporus.org/>), I refined the list, reducing some terms down to stems in order to capture all variations of a particular word (e.g., *bribe** to include bribe, bribes, bribery, bribed, etc.) and exclude other terms that generated unwanted articles (e.g., the term *import**, which I used to find articles about import regulation violations, also captured articles including the word ‘important’—the software program I used to run the final search allowed me to include *import**, but exclude specific words, such as ‘important’). I used the final list of terms to search among the general list of articles associated with each organization in my dataset to identify the number of transgressions (events) committed by each organization by utilizing prior research that has focused on the importance of word association.

Burgess, Livesay, and Lund (1998: 242) demonstrate that the *context distance* between associated words is meaningful and that in *word neighborhoods*, “closer neighbors tend to be more related than neighbors that are farther away.” Spence and Owens (1990: 324-325) test this hypothesis directly, finding that the “distance between co-occurring pairs [of words] ... is inversely related to association strength” and that this effect “is not constrained by sentence boundaries.” More specifically, Burgess and colleagues (Burgess et al., 1998; Burgess & Lund, 1997) distinguish between *global* and *local co-occurrence*, the latter of which they identify using a moving window size of 10 words. As such, for those terms that are commonly used as a phrase (e.g., obstruction of justice), I searched for the word *justice* within three words of *obstruct**. For words that

have meaning in the context of this study when associated with each other (e.g. ethics transgressions by organizations), but are not contingent on that association (e.g., violate and regulation), I used a broader search of *violat** within ten words of *regulat** in order to capture contexts that are still relevant.

To distinguish among transgressions events, I searched for clusters of articles identified by specific search terms. Two articles that contain the term *insid* w/in 3 trad** (insider trading), for example, were treated as covering the same firm event if they occurred within 14 days of each other. If there was a break of more than 14 days, without reference to the same search term, any subsequent mention of that term was treated as referring to a different event. I also tested a window of 28 days, with no change in my results. The number of transgressions events for each firm was weighted according to the average severity of each action (Table 2), to form a variable that captures the extent of severe ethics transgressions committed by the focal firm that had received national media coverage in the three years prior to adoption of the ECO position.

Similar to the process described above for an organization's ethical track record, I used lagged variables (with the same weights) to capture the cumulative effects of prior ethics transgressions. I also tested my hypotheses using both a count of ethics transgressions events and the total articles about ethics transgressions in different models. Similar results were obtained with both variables. Due to their exponential distribution, I logged these variables.

CONSEQUENCES OF THE EXTENT OF IMPLEMENTATION OF THE ECO POSITION

In addition to identifying the antecedents of practice implementation, I hope to make a contribution by demonstrating that the implementation decisions by organizations are consequential. I have hypothesized a number of outcomes that are related to the

extent of implementation of the ECO position—the firm’s *subsequent ethics transgressions*, *ethics helpline contacts (total and serious)*, *reputation*, and *media coverage*.

Subsequent ethics transgressions. I hypothesized that the more substantive the implementation of the ECO position by an organization, the lower its risk of subsequently committing an ethics transgression. Using the same methodology I used to identify prior ethics transgressions by an organization, I searched for subsequent transgressions by each organization in the years from 2005 to 2008 (the most recent years for which I collected data) using the set of articles mentioning each organization obtained from the Factiva database. Similarly, these articles were then weighted by the severity of each action listed in Table 2 to form a variable that captures the annual number of severe ethics transgressions (separate events) committed by the focal firm during this time period.

In order to test the effects of implementation on subsequent ethics transgressions, I summed the four years of transgressions data (2005-2008) to create a single variable. Unlike the variables created to measure the organization’s ethical track record and prior ethics transgressions, therefore, this outcome variable was not discounted over time.⁶¹ Including prior ethics transgressions (the independent variable from H3) as a lagged dependent variable in the regression allows me to test for the change in transgressions behavior and constitutes a conservative test of my hypothesized relationships.

Ethics helpline contacts. The management of the organization’s ethics helpline is a central component of the ECO’s responsibilities. It is the ECO who designs and implements the helpline and it is the ECO who deals with the problems that are subsequently reported. As a result, information about contacts is readily available to

⁶¹ Using the average number of transgressions per year, or only those transgressions committed in 2008, produced substantively the same results as those reported below.

ECOs. Preliminary interviews with ECOs highlighted the importance of distinguishing between two different kinds of contacts—*routine inquiries* that can be addressed immediately and more *serious incidents* that require additional action by the ECO. Using my survey, I asked for total counts of all kinds of contacts received by the ECO, as well as a percentage breakdown of these contacts into routine inquiries and serious incidents. In terms of the total number of inquiries, I used the reported count as my dependent variable. For serious contacts, in order to avoid the difficulties sometimes associated with a percentage as the dependent variable, I multiplied the total number of contacts by the percentage reported serious in order to create a count of serious contacts received by the ECO in the most recent complete calendar year, 2007.

Reputation. In order to measure an organization's reputation, I draw on the *Fortune Most Admired Firms* dataset. Fortune has published these data annually since 1982, which more than adequately covers my period of study from 1990 to 2008. The Fortune data are a compilation of eight separate measures (Innovation, People management, Use of corporate assets, Social responsibility, Quality of management, Financial soundness, Long-term investment, and Quality of products/services) that have been widely used by researchers as an indicator of firm reputation, with firms being scored on a scale from 0 to 10 (Deephouse, 2000). As such, these data represent an effective test of H6 because they capture the assessment of an organization by its peers (other executives and directors) and include a measure of social responsibility.

Due to the limited number of publicly listed firms in my dataset and the fact that not all of these firms had Fortune scores for all the years of my study, I imputed missing Fortune data for those firms that had scores for some, but not all, of my years of interest, using the average of those scores that were available. For organizations that were not rated by Fortune, I coded those firms' scores as 0 and created a dummy variable (*Fortune*

dummy) to identify those observations in which this transformation occurred. Imputing data in this way preserves observations with missing values, yet removes any bias associated with assigning a zero score (Greene, 1997).⁶² In order to capture all four years of data in a single variable, I constructed a cumulative measure from the sum of data from 2005 to 2008. I also controlled for the firm's reputation in the three years prior to adoption in the regression models as a lagged dependent variable, which constitutes a conservative test of my hypothesized relationships.

Due to missing observations for this variable for the organizations in my dataset and also due to concerns about the compilation methodology of the Fortune data, narrow stakeholder focus, and large U.S. firm bias (Deephouse, 2000),⁶³ as well as other concerns about construct validity (Brown & Perry, 1994; Fryxell & Jia, 1994),⁶⁴ I developed an alternative measure of reputation that captures the level of positive affect within the organization's *media coverage*.

Media coverage. My second measure of an organization's reputation was constructed by analyzing the content of press articles about the firm to identify the level of broad positive affect in its media coverage (Deephouse, 2000). I hypothesized that the more substantive the organization's extent of implementation of the ECO position, the more favorable its associated media coverage.

⁶² As an alternative to coding data for those organizations without ratings as 0, I also tried using the SIC 1 digit average and, in those instances where industry was not reported, I used overall mean substitution for missing values. This alternative imputation did not substantively change my results.

⁶³ A number of academic studies have relied on the Fortune rankings as a proxy for firm reputation (Fombrun & Shanley, 1990; Staw & Epstein, 2000). Though researchers have identified the limitations of these data as a reputation measure (Deephouse, 2000; Fombrun et al., 2000), the rankings capture evaluations from important firm constituencies across a broad spectrum of evaluative criteria. The construct validity of the Fortune data is supported empirically by Fombrun and Shanley's (1990: 245) factor analysis demonstrating that the eight separate components load onto a single factor with an eigenvalue of 6.68 and are, in fact, "components of an underlying and stable construct of reputation" that explains 84 percent of the variance that can be attributed to the measure.

⁶⁴ The researchers demonstrated that the ratings are largely determined by managers' perceptions of the financial performance of the firm they are rating.

To construct this variable, I used the same set of articles about each of the organizations in my dataset obtained from the Factiva database (detailed above). In studying the effects of implementation of the ECO position on the organization's subsequent reputation, and similar to the subsequent ethics transgressions and reputation variables detailed above, I focused on data from the years 2005 to 2008. I anticipate that this window between adoption and 2005-2008 (which varies for each firm according to when it adopted the ECO position) is a necessary time period over which to evaluate any effects on the organization's reputation (in terms of its media coverage), given that a large firm's reputation is assumed to be relatively "stable from one period to the next" and takes time to evolve (Phillips & Zuckerman, 2001: 384). Each article during this four year period was analyzed for affect using the computer-based text analysis program Linguistic Inquiry and Word Count, or LIWC, (Pennebaker & Francis, 1999), which has been widely used in prior academic studies (Pennebaker & Graybeal, 2001; Pennebaker et al., 2003).

The LIWC content analysis software calculates the percentage of words that appear in a text that fall within empirically derived dictionaries of words that define specific categories. There are three categories related to affect— general *affect* (a total of 915 words, such as happy, cried, abandon), *positive emotion* (a total of 406 words, such as love, nice, sweet) and *negative emotion* (a total of 499 words, such as hurt, ugly, nasty). Given the hypothesized positive relationship between ECO implementation and subsequent media coverage, I am primarily interested in the category containing words associated with positive emotion as a measure of the positive affect contained within media coverage of an organization from 2005 to 2008. In order to ensure the articles included in this measure were articles in which the focal organization was featured relatively prominently, I analyzed only those articles that mentioned five or fewer firms,

of which the focal firm was one. I contend that this constraint limits the articles identified to those in which the focal firm was a focus of interest in the article, rather than being one of many firms. This filter captured 86.7 percent of the total articles collected.

Similar to the methods described for the Fortune reputation variable above, I constructed a cumulative measure of the positive emotion variable by calculating the sum of data from 2005 to 2008, while controlling for a weighted measure of affect in the three years prior to adoption as a lagged dependent variable. By including this control for level of positive emotion prior to ECO adoption in my regression models, I am able to compare media coverage before and after adoption to see the extent of any change caused by the extent of implementation. As an effective control for unobserved heterogeneity, including lagged dependent variables also constitutes a conservative test of my hypotheses.

Overall reputation. In additional analyses, I conducted a factor analysis similar to other factor analyses in this study (an exploratory factor analysis with a principal component factor extraction method)⁶⁵ to identify the extent to which these multiple measures of reputation (the single Fortune measure and the three affect variables generated by the LIWC content analysis) load onto a single factor that captures both the perceptions of the firm and its salience in the minds of multiple stakeholders (Rindova et al., 2005) and can serve as a representative approximation of a firm's broad reputation (Rhee & Haunschild, 2006). While in the case of both lagged reputation (three years prior to adoption) and lead reputation (three years post adoption), the variables loaded heavily onto a single factor with eigenvector values of 3.139 and 2.833, it appears from the difference in factor weightings that the Fortune measure represents a related, but different construct. I explore possible inferences of this difference in the Discussion section, below. The results of the two factor analyses are presented in Table 3.

⁶⁵ Rotation is not possible with only 1 factor.

Insert Table 3 here

CONTROL VARIABLES

There are a number of possible alternative explanations for the hypothesized relationships between the independent and dependent variables in this study that need to be controlled for so that their influence does not confound the results of my analyses.

Environmental controls

Institutional environment. A number of studies have identified mimetic isomorphism as an important predictor of subsequent adoption by the focal firm (Davis, 1991; Haunschild, 1993). As such, it is important to control for the extent to which ethics and ethical behavior had diffused among other organizations (i.e., not only those organizations in my sample) at the time the focal organization adopted the ECO position in order to account for the variance that this mechanism might explain. I constructed this variable from a search in the Factiva database for all newspaper articles in a given year published in the *Wall Street Journal*, *Financial Times*, *BusinessWeek*, *Fortune*, and *Forbes* that contained either of the word stems ethic* or unethic*. This count of articles was included in the regression analyses as a proportion of the total number of articles in these publications in a given year, multiplied by 100.

Institutional waves. An important element of my theory is the idea that, while it is field-level forces that predict adoption, it is firm-specific factors that predict implementation. In order to demonstrate this empirically, it is important to include a control variable in H2 and H3 that captures whether a firm adopted in proximity to the critical events that formed the independent variables in H1a and H1b (1991, 1996, 2002, and 2004). The variable I coded to control for those firms that adopt in the absence of a

critical ethics event (described above) controls for the influence of these institutional forces on firm adoption behavior. Non-significance for this variable in H2 and H3, with significance for my hypothesized variables, supports my argument about the different antecedents of firm adoption and implementation behavior.

Organizational controls

Industry. The organization's industry is an important potential alternative explanation of the extent of implementation of the ECO position. In general, industry matters, although the extent to which it matters is debated (McGahan & Porter, 1997; Rumelt, 1991; Wernerfelt & Montgomery, 1986). One reason why industry matters is that it largely determines the firm's operational environment (Hirsch, 1975). Firms that operate in industries that are subject to greater political influence (Basu et al., 1999) or regulatory oversight (Baron et al., 1986), industries that experience greater legal ambiguity (Edelman, 1992), or industries where output is difficult to evaluate (Meyer & Rowan, 1977; Pfeffer, 1981a), for example, may all face increased pressures to respond to institutional pressures. Holding a firm's industry constant removes the explanatory power of this potential influence from my independent variables of interest. Due to the limited observations in my dataset and in order to preserve statistical power, I used a set of dummies to identify each firm's industry at the 1-digit SIC level, with SIC industry 9 the omitted category.⁶⁶

Ownership. An organization's level of public visibility leads directly to greater calls for accountability in terms of behavior that is broadly perceived to be legitimate (Dowling & Pfeffer, 1975). In addition to finding that larger firms are more likely to include greater amounts of ethical content in their annual report, for example, Lentz and

⁶⁶ These industry controls were dropped for the regression testing H1b because, by calculating the coefficient of variation by year and SIC 1 level, I am already controlling for industry in these analyses.

Tschirgi (1963) also found that firms with greater exposure to public oversight had higher levels of ethics reporting. Similarly, Edelman (1992) demonstrates that direct connections to regulatory authorities increases the normative influence of legislation. Public firms are also more likely to face regulatory calls to demonstrate action in the area of ethics, as shown by the requirements included in Section 406 of the Sarbanes-Oxley Act (2002). Of particular relevance to this study is the relationship between ownership and the extent of implementation, which Sine and Tolbert (2007) demonstrate holds for universities and the percentage of tenure track faculty. Including a dummy variable that accounts for whether a firm is for-profit (coded 1) or nonprofit (coded 0), therefore, removes this potential explanation from my statistical analyses.⁶⁷

Size. The size of the focal firm, in whatever form it is measured, is an important predictor of organizational attributes and behavior (Scott, 2003). The larger the organization, for example, the more susceptible it is to institutional pressures (Baron et al., 1986). Such pressures include societal demands for legitimate organizational actions (Dowling & Pfeffer, 1975) that include reporting on ethical behavior (Lentz & Tschirgi, 1963). Thus, controlling for this potential influence removes its explanatory power from my independent variables of interest. Given that the ECOA's organizational members are made up of both for-profit (private and public) and non-profit (governmental and non-governmental) organizations, the one measure of size that applies to all is the number of employees, a variable that is commonly used to indicate the size of an organization (Scott, 2003: 264). I confirmed the reported number of employees for each organization in my dataset using the Mergent Online database and also used this source to substitute for missing values. I entered this variable into my regressions as the log of employees.

⁶⁷ Coding this dummy variable to identify public (1) and private (0) organizations does not alter the results.

Age. In addition to size, the age of the organization is a predictor of various outcomes. An important body of work has shown that organizations age in stages, from newness to adolescence to obsolescence, and that they act in different ways depending on their stage of development (Brüderl & Schüssler, 1990; Henderson, 1999; Stinchcombe, 1965). These data were collected as part of my survey responses. Similar to my size variable, I confirmed the reported age of each organization in my dataset by identifying the year of founding or incorporation in the Mergent Online database. I used this source to substitute for missing values and logged this variable prior to entering it into my regressions models.

Slack resources. Slack is a variable of interest for organizations scholars (Bourgeois, 1981; Cyert & March, 1963) that is claimed to buffer the firm from sudden changes in its environment (Thompson, 1967), while also helping it to adapt (Meyer, 1982: 522). Organizations with more slack may be more able or willing to support the ECO position. Due to the fact that a number of the respondents to my survey are private organizations (both for-profit and non-profit), however, obtaining data on the detailed accounting measures needed to calculate the measure of slack that is often used by researchers relying on Compustat data (e.g., Davis & Stout, 1992) is not feasible. As such, I created a qualitative question for my survey that was designed as a reasonable proxy for the availability of slack at the department level within the organization, with respondents answering on a 5-point Likert scale.⁶⁸ The senior ECO, as the head of their department, is well-placed to answer this question: “If your Department had **a new, discretionary opportunity** that required additional resources (i.e., not currently budgeted

⁶⁸ I recognize that it is possible that an organization may have significant slack resources, but simply not be willing to give them to the ECO for any number of economic or political reasons. As such, in addition to a general measure of slack, this variable represents a further indication of the organization’s commitment to the ECO position.

for), how likely is it you would be able to gain access to these resources?” I used these data to create a dummy variable, coding responses of highly likely or likely as 1 and coding responses of unsure, unlikely, or highly unlikely as 0.

In addition, this variable helps control for the financial performance of the organization, which prior research has shown is a predictor of subsequent ethical and socially responsible behavior (Margolis et al., 2007). It is inferred from this research that superior prior performance by the focal firm will generate greater resources, which constitute greater available capital to invest in projects with higher risk attached and/or lower projected returns, while also diminishing the pressure to maximize technical value in any decision to adopt. Equally, since, by definition, less substantive implementation is less of a drain on resources than more substantive implementation, firms should be able to adopt symbolic behavior with greater ease and less fear of the financial costs involved. I argue that better financial performance (which I am not able to measure across all the organizations in my population) will result in greater access to slack resources (which I am able to capture with my survey data).

Compliance officer (CO). The concept of *ethics scope* is used to measure the extent to which a firm has adopted the essential components of an ethics program (Weaver et al., 1999a, 1999b). The extent to which scope is broad indicates a more genuine approach to this issue, which is likely to affect the level of resources committed to the ECO position. Of specific relevance is whether or not the ECO is able to focus solely on ethics related duties, or whether other responsibilities constitute a sizeable component of their day-to-day work. The extent to which a firm has a separate CO, therefore, is an indication of whether the emphasis on the Ethics and Compliance Officer’s work is on ethics or compliance. I use a dummy variable coded as 1 if the

organization has both an ECO and a CO, and 0 otherwise, to signify the presence of a CO.

Individual controls

ECO demographics. The inclusion of a number of demographic control variables excludes important potential alternative explanations of the level of resources an organization is willing to commit to the ECO. These variables include *ECO tenure* (both the length of time the ECO has spent at the focal firm and the length of time the ECO has worked as an ECO, perhaps at another firm), *ECO age* (the mid-point of 5 year ranges), *ECO gender* (female = 1), and the level of the *ECO's education* (JD, MBA, and/or Ph.D. = 1). Response rates to these demographic questions in my survey varied. As a result, I imputed missing data for the ECO's age, organizational tenure, tenure as an ECO, and gender using the average of those ECOs for whom data was reported.⁶⁹

ECO status. This variable measures the management position within the focal firm's hierarchy that is most equivalent to the position of the ECO and permits comparison across firms. Survey respondents were given the option of choosing among the following five options: Executive Officer, Senior Vice President, Vice President, Senior Manager, and Manager. In addition, the survey asks whether or not the ECO works at the organization's headquarters.⁷⁰ It is likely that the level of seniority granted to the ECO by the organization is related to the extent of implementation of the position. In other words, those firms that are more committed to ethics at adoption are likely to give the position more prominence and importance within the organization's hierarchy

⁶⁹ I used the same method (mean averages calculated from survey reports) to impute missing data for the control variables firm age, number of employees at adoption, and whether or not the firm also had a Compliance Officer.

⁷⁰ Including this *HQ dummy* in addition to the hierarchical status of the ECO did not add significant explanatory power to my models.

and, consequently, are more likely to devote greater resources to the ECO. I used these survey data to create a dummy variable, coding responses of Executive Officer, Senior Vice President, or Vice President as 1 and coding responses of Senior Manager or Manager as 0.

Other controls

Endogeneity and unobserved heterogeneity. Given the structure of my hypothesized relationships (Figure 1), I controlled for the antecedents of extent of implementation (ethical track record and prior ethics transgressions, H2 and H3) in the regression models used to test H4 to H7. In addition, for H6 and H7 I included measures for prior reputation and prior positive affect (media coverage) in the three years prior to adoption. These lagged dependent variables offer a broad control for potential endogeneity and unobserved heterogeneity in firms' overall behaviors. Specifically, including these variables allows me to better isolate the effects of my independent variables on the change in dependent variable from the prior period and also constitute a conservative test of my hypotheses.

Total articles. In order to construct a number of variables in this study, I conducted searches for articles about each of the organizations in my dataset using the archival database Factiva that appeared in five prominent business newspapers: *Wall Street Journal*, *Financial Times*, *BusinessWeek*, *Fortune Magazine* and *Forbes Magazine*. In order to control for changes in the amount of press coverage over time, I included an annual count of all articles on any subject in these five publications.

POTENTIAL METHODS BIASES

The primary source of data for this study is an online survey. Using a survey to collect historical organizational data raises the potential for numerous forms of biases,

including common methods bias, single response bias, recollection and post-hoc rationalization biases, and additional survey biases, such as self-report or social desirability bias. Given the definition of my population of interest, there is also the possibility of a sampling bias. There is reason to believe that some of these biases are less problematic for these data and there are a number of actions I can take to minimize the dangers that remain.⁷¹

Common methods bias. The potential for common methods bias occurs when the same source of information is used to construct both the independent and dependent variables in a regression model (Podsakoff et al., 2003). This situation arises in this study for the hypotheses designed to analyze the relationship between the extent of implementation of the ECO position and the level of ethics helpline activity at the organization (H5a to H5d). There is reason to believe, however, that the threat of common methods bias is minimized in this study, given that the information I am requesting from the senior ECO is relatively objective—budget, number of employees, and formal meetings with the CEO and Board (in the case of the *extent of implementation of the ECO position* variable), and number of helpline contacts, both routine inquiries and serious incidents (in the *total number of inquiries* and *proportion of serious incidents* variables)—rather than being perceptual (Podsakoff & Organ, 1986). In addition, the data I am requesting are specific numbers for each variable, rather than data ranges or same scale endpoints, and the helpline data was requested in two different formats (total number and percentage serious). Finally, by creating separation in the survey between the

⁷¹ I also recognize that a bias might exist in my sample because the ECOA's list of current members does not include those organizations that were ECOA members at some point during the window of my study (1990-2008), but are no longer members. Unfortunately, the ECOA does not keep an annual list of organizational members or dates that an organization created or discontinued its membership, which prevents me from identifying such organizations and discovering whether such a bias exists in my data. The year-on-year increase in ECOA membership and no anecdotal evidence of high turnover, however, suggest that the prospect of such a bias is low.

questions used to estimate the extent of ECO implementation and the level of helpline activity, and placing the demographic questions at the end of the survey, I am taking further steps to minimize the potential for common methods bias to occur (Podsakoff et al., 2003: 887).

In addition to these preventative steps that were taken as part of the research design and in order to ensure that common methods bias has not resulted in the variance I am explaining with my regression models being “attributable to the measurement method rather than to the constructs the measures represent” (Podsakoff et al., 2003: 879), there are a number of statistical tests available for further robustness. In particular, I ran Harman’s single-factor test, which loads the items from the related constructs (the two independent variables, *financial support* and *TMT support*, and the two dependent variables, *total inquiries* and *serious incidents*) into an exploratory factor analysis to see whether there is one factor (e.g., the single data source) that explains the majority of variance. The four variables loaded cleanly onto two separate factors with an inter-factor correlation of -0.00615. Because this method has been criticized as a necessary, but insufficient, step in testing for common methods bias (Podsakoff et al., 2003), however, I also ran a partial correlation procedure, which examines the underlying relationships among the variables after partialing out the first unrotated factor from Harman’s exploratory factor analysis (Podsakoff et al., 2003). All tests confirmed that common methods bias was not a significant cause for concern with these data.⁷²

Single response bias. Although the survey that constitutes the primary data source for this study was sent to all of the ECOA’s individual members, there are a large proportion of the ECOA’s organizational members that have only one individual ECOA

⁷² These test results are reinforced by the curvilinear results I found for H5, reported below, which indicate there was no obvious bias in the survey responses provided by the ECOs.

member. In addition, even at those organizations with multiple members, I did not secure a perfect response rate. As such, the majority of my data are from single respondents within an organization. Although single respondents per organization can raise the potential for bias in the data, there is reason to believe that this is of less concern here. My goal was to obtain responses from the senior ECO, who is uniquely placed to answer the questions in the survey as the “key informant” (Kumar et al., 1993) or “the most informed respondent” concerning formal ethics policies within the firm (Weaver et al., 1999b: 544). As such, my survey was designed to access the perspective of the firm’s senior ECO and multiple respondents per organization could lead to problems of “perceptual agreement” (Kumar et al., 1993: 1636-1637).⁷³ In those cases where I received multiple respondents, the data were coded to identify the primary or most useful response per organization. The most important criterion for this identification was the completeness of the response and whether the respondent was the senior ECO. After that, indicators such as the respondent’s title and whether they worked at the corporate HQ determined primacy. As such, my final regressions contained only one response per organization.

Low response rates. Prior surveys conducted by the ECOA have resulted in response rates of 42 percent (2000) and 40 percent (2006). These levels exceed the response rates of 26%, for example, achieved by other surveys conducted by academics regarding organizational ethics (Weaver et al., 1999b: 544).⁷⁴ My survey response rate was significantly higher than these prior surveys, securing responses from 309 unique

⁷³ See also Mezas and Starbuck (2003) for a discussion of the potential for inaccurate and conflicting perceptions among executives of the same *objective* data.

⁷⁴ An exception to this is Stevens, Steensma, Harrison, and Cochran (2005) who employed the services of the Gallup Organization and were able to obtain a 98% response rate for their telephone survey of CFOs that was designed to discover the extent to which a firm’s ethics code influences its CFO’s decision making.

organizations (55.3%) among the ECOA's organizational members, of which 289 were largely complete (51.7%).

Recollection and post-hoc rationalization biases. Using a survey to collect historical data can also raise the potential for recollection and post-hoc rationalization biases among respondents. Again, however, there is reason to believe that this possibility is reduced in this study because there is a high degree of objective, rather than perceptual, content in my data (Podsakoff & Organ, 1986). For my measures of the extent of implementation, I deliberately chose indicators that it is reasonable to expect are recorded by the organization (past budgets and employee numbers) or easily retrieved by the senior ECO (access to the CEO and Board).

Additional survey biases. As with any survey data, there is also the potential for the data to be skewed by either a *self-report bias* or a *social desirability bias* (Podsakoff & Organ, 1986). The counterpoint to the first bias is similar to the arguments presented in defense of the *recollection and post-hoc rationalization biases* above—the relatively objective nature of the data. The counterpoint to the second form of bias, which makes the reasonable assumption that ECOs possess an inherent desire to appear ethical, is twofold. First, from the nature and ordering of the questions, it is not obvious that I was asking about issues of ethicality and, in particular, the individual ECOs' performance as an ECO. And, second, if they did suspect this and the bias is present, then I would expect to see little variance in my data, when, in fact, I see considerable variance in terms of how different organizations are implementing the ECO position.

Selection bias. Some firms may have strong but unobserved cultures that create a predisposition towards ethical behavior. Such predispositions are likely to become apparent in the timing of adoption and extent of implementation of the ECO position. If this is true of the organizations that join the ECOA, it raises the prospect of sampling on

the dependent variable in this study. Given that my survey was sent only to those organizations that are members of the ECOA and that all the firms that join the ECOA, almost by definition, have adopted the ECO position, this concern arises particularly in relation to H1a where the dependent variable is ECO adoption. There are a number of reasons to believe, however, that this selection bias is not present for these data.⁷⁵ First, in relation to H1a, rather than *whether* a firm adopts, I am interested in understanding *when* a firm adopts—patterns of behavior that vary among firms over time. This dependent variable assumes adoption. Second, if there was a sample bias in my data, it would suggest a higher sensitivity to institutional forces and early adoption when, in fact, the opposite is true and most firms in my dataset are later adopters (see Figure 5). And, finally, prior research has demonstrated that association membership does not necessarily indicate a strong commitment to the goals of the association (Westphal et al., 1997). This is supported by the variance in my extent of implementation variable, which suggests that, for some firms, ECOA membership may serve as a decoupling tool, rather than a strong indicator of ethical predisposition.

In the next section of this paper, I present the results of my statistical analyses.

⁷⁵ If present, a two-stage model accounts for selection bias. In this case, however, because all ECOA members have adopted the ECO position, a two-stage model controls only for within-survey response bias.

Statistical Analyses and Results

There are eight dependent variables defined by my hypotheses (see Figure 1). The majority of these hypotheses center on my main variable of theoretical interest, the *extent of implementation of the ECO position* (continuous variable), but H1 adds the two dependent variables, the *adoption of the ECO position* by an organization (dichotomous variable) and the *diversity of implementation of the ECO position* across organizations (continuous variable). In addition to the extent of implementation as a dependent variable (H2 and H3), it is also an independent variable that predicts a number of outcomes (H4 to H7): *subsequent ethics transgressions* by the organization (continuous variable), the *total number of inquiries* and the *number of serious incidents* reported to the organization's ethics helpline (count variables), the organization's *reputation* (continuous variable), and the organization's *media coverage affect* (continuous variable).

In terms of statistical estimation methods, H1a estimates the risk of adoption of the ECO position in a given year, which I analyze using discrete-time event history analysis with a complementary log-log model because adoption could occur at any time, but was only recorded annually (Allison, 1995). To analyze H1b, the repeated observations on firms across time determine that I use Generalized Estimating Equations (GEEs) with robust standard errors and a first-order autoregressive correlation structure, an identity link function, and a normal distribution (Liang & Zeger, 1986). Due to the cross-sectional nature of my organizational level data and the continuous nature of the dependent variables, for the remainder of my hypotheses I use ordinary least squares estimation (H2 and H3, H4, H6, and H7). The only exception is H5, where the dependent variables are non-negative counts, for which I use a negative binomial method of

estimation (Allison, 1999). More details about the methods and estimation methods used in each regression model are presented below.

Critical ethics event. H1a predicts a relationship between the critical ethics events and the adoption of the ECO position by firms. In particular, I hypothesized that the presence of the events identified by ECOs in my preliminary interviews (occurring in 1991, 1996, 2002, and 2004) will result soon after in an increased risk of a firm adopting the ECO position, followed by a decrease. In order to test the effect of each event over time (and, therefore, test for the presence of my theorized *institutional waves*), I created a clock variable that is coded as 1 in the first year of the study (1990) and increases incrementally until the first event (1991) when it re-sets to 1, increasing incrementally until the second event (1996) when it re-sets, and so on (Amburgey et al., 1993). Forming the clock variable in this way enables me to avoid the issue of multicollinearity that arises when I include four separate clocks (one for each event) in the same model and also allows me to control for time across my population of organizations.⁷⁶ Similar to Amburgey, Kelly and Barnett (1993), I argue that this variable form is justified theoretically because each of the four events is of a similar type—an exogenous institutional shock that is a response to unethical behavior by organizations.

For my theorized *waves* to be supported, I expect a positive and significant coefficient for the step function for a given year (representing the predictive effects of the event), a positive and significant coefficient for the linear clock (representing the short term boost in adoption behavior), and a negative and significant coefficient for the squared clock (representing a decreasing influence over a longer time period).⁷⁷

⁷⁶ In alternative analyses, I included a linear clock along with the re-setting clock to more adequately control for time in the regression, although this also created problems with multicollinearity.

⁷⁷ In addition to my test of the effects of the four steps, clock, and clock squared on ECO adoption, I tested their effects on the adoption of an ethics helpline. I report the results for ECO adoption below, but the same results were obtained in both cases. Data for both DVs were collected from my survey of ECOs.

Adoption of the ECO position. This variable is tested at the organizational level of analysis using event history analysis, which estimates the risk of the occurrence of a specific event in a given time frame (Cox, 1972). Event history analysis is a flexible estimation method that is able to handle either discrete or continuous data (Cox, 1972) and used to study non-repeat events that are at risk of occurring over a multi-year window of observations, such as the founding of energy power plants (Sine et al., 2005) or the adoption of CEO incentive packages (Westphal & Zajac, 1994). In this study, I hypothesized that the risk of an organization adopting the ECO position will increase following a critical ethics event and then decrease (H1a). The ECO adoption data are self-report answers to the survey question: “In which year did your organization first create a position to deal with ethics and compliance issues?” Since firms were at risk of adopting the ECO position throughout the year, but only recorded annually, these data are discrete representations of continuous time hazard rates. As such, I employ a discrete time event history model with a complementary log-log function, which accounts for both the discrete nature of my collected data and the continuous nature of the adoption process (Allison, 1995).

Given the presence of multiple step functions and the clock and clock squared variables in my event history analyses, there is the possibility of multicollinearity among the predictor variables. In order to check whether or not this is an issue in my analyses, I ran the full model in PROC REG in the SAS statistical program using the COLLINOINT function to calculate condition indices and found no cause for concern. The condition indices were 13.06, well below the recommended level of concern—condition indices greater than 30 (Belsley et al., 1980: 112).

Diversity of implementation of the ECO position. This variable is analyzed at the field level of analysis using the coefficient of variation to calculate measures of diversity

across organizations in a given year. Due to the continuous nature of this dependent variable and the panel data I use to test H1b, a Generalized Estimating Equations (GEE) estimation method provides the most appropriate statistical tool (Chatterjee & Hambrick, 2007; Rhee & Haunschild, 2006). In particular, I use GEEs with robust standard errors and a first-order autoregressive correlation structure, an identity link function, and a normal distribution (Liang & Zeger, 1986).

The two coefficient of variation variables I calculate to represent the extent of financial and time resources dedicated across organizations to the ECO position in the first three years of adoption contain a few extreme outliers. In order to minimize the influence of these outliers, I winsorized these two variables. Unlike other instances of winsorizing in this study, however, winsorizing at the 1st and 99th percentiles does not remove the outliers due to the smaller number of total observations. As such, I winsorized these variables by identifying the 5th and 95th percentiles and substituted these values for the few variables that were below and above these values, respectively. It has been demonstrated that the efficiencies of the mean and standard deviation of distributions of winsorized variables are “scarcely distinguishable from those of best linear estimators” (Dixon, 1960: 385).

Similar to my event history analyses, I ran the full models in PROC REG, using the COLLINOINT function to calculate condition indices. For these regressions, none of the reported condition indices rose above 17.63, which allows me to conclude that multicollinearity was also not a concern for these models (Belsley et al., 1980: 112).

Extent of implementation of ECO position. Due to the cross-sectional nature of my organizational level data and the continuous nature of my dependent variables, for the regression models used to test the remainder of my hypotheses, with the exception of H5, I use ordinary least squares (OLS) estimation. All these models were also run in PROC

REG, using the COLLINOINT function to calculate condition indices. For the full models of the regressions used to test H2 and H3, H4, H6, and H7, the reported condition indices were, 10.26, 4.96, 5.01, and 4.58, respectively, which reassures me that multicollinearity was also not a concern in any of these regressions (Belsley et al., 1980: 112).

Ethics helpline inquiries. To measure the effect of ECO implementation on the total number of inquiries to the organization's ethics helpline and the proportion of these incidents that were serious,⁷⁸ I use a negative binomial estimation method. Although either a Poisson or negative binomial model can be used to estimate non-negative count data, a negative binomial method is preferable because it corrects for overdispersion, which occurs when the variance of the count variable is greater than its mean (Allison, 1999). The model I use to test H5a, for example, draws on my main variable of theoretical interest (the *extent of implementation of the ECO position*) to predict the total number of inquiries reported to the organization's ethics helpline. An explicit assumption of using either a negative binomial or Poisson model is independence among the event counts. While this assumption cannot be fully evaluated with the data I have, it is satisfied unless a specific individual or group at an organization accounts for the majority of helpline inquiries received by that organization. As with all my other analyses, I ran these regressions in PROC REG, using the COLLINOINT function to calculate condition indices. For these regressions, none of the reported condition indices rose above 5.49, which allows me to conclude that multicollinearity was not a concern (Belsley et al., 1980: 112).

⁷⁸ As described above, I transformed this *proportion of serious incidents* variable to a non-negative count by multiplying the total number of inquiries by the percentage reported serious. One advantage of this transformation is that it avoids the issues that arise when using a proportion or percentage as a dependent variable.

RESULTS

The simple statistics and pairwise correlation coefficients for all the dependent, predictor, and control variables tested in my models are presented in Table 4. The pairwise correlations among the different variables show that the majority of correlations do not suggest any cause for concern. The few variables that are highly correlated, such as the clock and clock squared predictor variables are expected, while the low condition indices throughout all models indicate that multicollinearity does not play a confounding role in my results.

Insert Table 4 here

In testing all hypotheses, I first run a model including only the control variables as a baseline. I then add the main effects and interaction variables in order to test all of my hypotheses and present my results in stepwise fashion. The final model in each regression includes all the variables related to a particular dependent variable. In all cases, therefore, this model constitutes the fully-specified model from which I draw my conclusions concerning my hypotheses. Given the structure of my hypothesized relationships (Figure 1), I test for mediation among my variables for H4-H7 (Baron & Kenny, 1986).

Statistical significance is assessed using the traditional $p < 0.05$ level (Cohen, 1994). For the regressions using OLS estimation (H2, H3, H4, H6, and H7), I compare among adjusted r^2 levels to determine model fit. As event history is a maximum likelihood estimation method (H1a), it generates log likelihoods rather than r^2 . As such, I compare log likelihoods among the nested models in these regression analyses using χ^2 as an indication of the value added by each model. The GEE method invoked by the REPEAT statement is not a likelihood-based method (H1b). As such, instead of log likelihoods, QIC is the only fit statistic available for these GEE models, which I compare

across the models as an indication of the explanatory value added. In the case of the negative binomial estimations (H5), I use AIC to determine model fit. Similar to the QIC statistic, a lower AIC indicates a better model fit.

Institutional Waves

Both H1a and H1b predict a relationship between each critical ethics event (occurring in 1991, 1996, 2002, and 2004) and, respectively, the adoption of the ECO position by an organization and the diversity of implementation of the ECO position across organizations. In other words, the occurrence of the events will result soon after in an increased risk of an organization adopting the ECO position and greater variance in the extent of resources different organizations commit to the position, followed by a decrease over time.

Since the discrete time event history analyses designed to analyze H1a were estimated using a complementary log-log function, the probability of adoption at time t is: $p(t) = 1 - \exp[-\exp(\beta x)]$, where β represents the estimated coefficients and x represents the time-varying predictor variables. The positive and strongly significant coefficients for the 1996, 2002, and 2004 step functions in Model 3 of Table 5 indicate that events that occurred in these three years resulted, subsequently, in a higher rate of adoption of the ECO position among the organizations in my study. The positive and strongly significant coefficient for the linear clock and the negative and significant coefficient for the squared clock indicate that the effects of these events were initially positive, but decreased in influence over time in curvilinear, wave-like patterns.⁷⁹ The 1991 step function did not predict adoption. In retrospect, it seems likely there were inertial effects present in 1991 due to the low diffusion levels of the ECO position at that

⁷⁹ Supplementary analyses revealed that the effects of these critical ethics events are equally strong when predicting the risk of adoption of a helpline to deal with ethics and compliance related issues.

point in time. Other possible explanations are explored in the Discussion section. A plot of the probability of a firm adopting the ECO position in a given year is illustrated in Figure 6.⁸⁰ Since the explanatory power of the variables of theoretical interest to the probability of ECO adoption is contingent on all the variables in the regression model, the probability plots were calculated using the means of the control variables.

Insert Table 5 and Figure 6 here

It is important to note that, towards the end of my window of study, the line representing probability of adoption in Figure 6 increases sharply. This effect is due to the greater pressure on firms to adopt this position, which increases the probability of adoption over time, but, in the final years in particular, it is also a function of my data. Because I am surveying the members of the ECOA in 2008, I have very few non-adopters in my dataset at that point in time. As such, as I reach the end of my window of study, the likelihood of any remaining non-adopters adopting (as a percentage of remaining non-adopters) becomes very high. Because the current year of my study is 2008 (time t), I calculated the probability of adoption up until $t-1$ (2007).

Taken together, these results indicate support for H1a and demonstrate that, following a critical ethics event (with the exception of the 1991 Federal Sentencing Guidelines), there is an initial increase in the risk of a firm adopting the ECO position followed by a decrease.

In terms of the extent of diversity of implementation of the ECO position across firms following adoption (H1b), Model 3 of Table 6 presents mixed results. While the

⁸⁰ By setting the basic function $y = \alpha \text{ clock} + \beta \text{ clock}^2$ to 0 and using differential calculus, it is possible to calculate an approximate point of inflection of 5.5 years ($-\alpha/2\beta$). This explains why the latter waves, with less than 5 years between events, do not crest. Due to prior adopters dropping out of the dataset on adoption, the sharp increase in probability towards the end of study period reflects the increased chance of the remaining non-adopters adopting.

negative and significant coefficients for the 1991, 1996, and 2004 step functions indicate that the effect of the critical ethics events in these three years was to diminish the diversity of implementation across firms (contradicting H1b), the positive and significant coefficient for the SOX step function suggests the opposite effect (supporting H1b). In other words, while there is less variance in the commitment of financial resources among organizations that adopt shortly following the 1991, 1996, and 2004 critical ethics events, the variance is greater following 2002.⁸¹ The negative and significant coefficient for the clock squared variable together with the non-significant linear clock indicates that these effects diminish over time, but not in the wave-like pattern I predicted and found support for in H1a. Model 6 shows that these results are restricted to financial support—diversity in the extent of ECO implementation as measured by TMT support is not influenced by the critical ethics events.

Insert Table 6 here

Antecedents of Implementation of the ECO Position

H2a and H3a hypothesized positive relationships between an organization's ethical values and its prior ethics transgressions, and the extent of implementation of the ECO position, while controlling for the effects of the field-level forces that predicted adoption in H1. In other words, the higher the activity of the focal firm in relation to ethics and social responsibility metrics, the higher the level of resources the organization

⁸¹ As detailed above, for the variable *diversity of implementation of the ECO position*, I calculated the coefficient of variation by year and SIC 1 digit level in order to create greater variance on my dependent variable. Calculating this variable in this way, however, resulted in my industry dummy controls absorbing a disproportionate amount of the variance in these regressions, which was indicated by the large coefficients of these controls that appeared in my initial analyses. As such, I excluded industry as a control in these regressions in order to identify the underlying relationships between my independent variables of interest and this dependent variable.

should be willing to dedicate to the ECO position. Similarly, the presence of a severe ethics transgression in the years prior to the adoption of the ECO position should predict more substantive implementation of the ECO position. The results for the regressions testing these two hypotheses are presented in Table 7.

Insert Table 7 here

The non-significant coefficients for both KLD strengths and KLD concerns across all models reveal the absence of support for H2a. This could be for two reasons that will be explored in more detail in the Discussion section—either an organization’s prior track record in relation to ethics and social responsibility does not affect its subsequent behavior, or the KLD data do not represent a meaningful operationalization of an organization’s ethical beliefs and values. The positive and significant coefficients for the variable capturing the weighted cumulative effect of the organization’s ethics transgressions in the three years prior to adoption of the ECO position in Table 7, however, indicate that these transgressions are positively correlated with the extent of implementation of the ECO position. These results hold for both financial support (Model 3, where the effect is marginal, and Model 9) and TMT support (Model 6 and Model 12); as well as for the extent of implementation in the three years following adoption (Models 3 and 6) and implementation in 2008 (Models 9 and 12). Together, these results demonstrate convincing support for H3a.

In H2b and H3b, I predicted a positive moderating effect for firms that adopt the ECO position in the absence of a critical ethics event. In other words, the main effects hypothesized in H2a (ethical track record) and H3a (ethics transgressions) to predict extent of implementation will be stronger when firms adopt the ECO position when institutional pressures are less intense. While there are no significant interaction effects

when the dependent variable is extent of implementation in 2008 (Models 9 and 12 of Table 7), there are two marginally significant interaction coefficients predicting implementation in the first three years following adoption (Models 3 and 6 of Table 7). However, these results do not present a clear picture (the KLD concerns interaction is positive in Model 3 and the ethics transgressions interaction is negative in Model 6) and suggest that this moderator has little effect. In addition, the lack of support for the main effect of adopting in the absence of a critical ethics event across all models indicates that where an organization adopts along the waves does not appear to influence its extent of implementation. Thus, there is no support for H2b and H3b.

Finally, in H3c, I predicted a positive moderating effect for the interaction between a firm's ethical track record and its prior ethics transgressions as a predictor of resource commitments to the ECO position. In other words, the relationship between ethical track record and extent of implementation would be stronger for those firms that had also committed an ethics transgression. Similar to the results for the H2b and H3b interaction models, however, there is no support for this hypothesis when the dependent variable is implementation measured in 2008 and only limited, marginally significant support for the KLD concerns interaction when implementation is measured in the first three years following adoption. As such, I conclude there is no support for H3c.

Consequences of Implementation of the ECO Position

H4 to H7 are designed to test whether or not an organization's extent of implementation of the ECO position is consequential. As such, for these variables, the extent of implementation is an independent variable that predicts a number of different outcomes.

In H4a, I predicted a negative relationship between the extent of implementation and the risk of a subsequent ethics transgression by an organization. In other words, to the extent that the ECO position is implemented more substantively with firm commitments of greater amounts of scarce and valuable resources, I hypothesized that this would reduce the likelihood of future transgressions. The positive and marginally significant coefficient for financial support and non-significant coefficient for TMT support in Model 3 of Table 8, however, fail to support this hypothesis. In fact, the combination of the positive and marginally significant coefficient for TMT support in Model 2 and the positive and marginally significant coefficient for financial support in Model 3 indicate that, rather than a negative effect, those organizations that dedicate more resources to implementing the ECO position are *more* likely to commit a transgression from 2005 to 2008 (controlling for transgressions committed prior to adoption).

Insert Table 8 here

In H5a, I predicted a curvilinear relationship between the extent of implementation of the ECO position and the total number of inquiries that are reported via an organization's ethics helpline, with both low levels (lack of perceived top management support) and high levels (a strong ethical culture in place) of ECO implementation resulting in lower levels of helpline activity, while moderate ECO implementation results in elevated levels of helpline activity. The positive and marginally significant coefficient for TMT support in Model 2 of Table 9 shows no support for H5a, but instead suggests a linear relationship. In addition, with significance only for the financial support squared term in Model 3 of Table 9, this hypothesis is not supported.

Insert Table 9 here

For H5c, I predicted a negative, linear relationship between the extent of implementation of the ECO position and the proportion of serious incidents that will be reported to an organization's ethics helpline. I argued that the greater the level of resources the organization dedicates to the ECO position, the lower the expected proportion of serious incidents in terms of the total number of inquiries made via the organization's helpline. This hypothesis is tested in Model 6 of Table 9, with no significance for either of the main effects of financial support or TMT support.⁸² As such, I conclude no support for H5c.

In H6a and H7a, respectively, I predicted positive relationships between the extent of implementation of the ECO position and two measures of organizational reputation (the traditional Fortune measure and also the level of positive affect in the media coverage the firm receives). In Model 3 of Table 10, almost all of the variance accounted for in my model is explained by the two variables that control for the firm's prior reputation, with non-significant coefficients for both financial support and TMT support. As such, I conclude there is no support for H6.⁸³

The results reported in Model 6 of Table 11, however, show some support for H7, with the positive and marginally significant coefficient for TMT support predicting positive media affect. In other words, the more time invested in the ECO position by the

⁸² Controlling for the total number of helpline inquiries in this regression did not alter the results. In separate analyses, I manipulated the proportion of serious incidents using a logit transformation ($\log[\text{proportion}/(1-\text{proportion})]$) prior to entering it in the OLS regression, a procedure often used to transform a percentage variable. In these analyses, this transformation produced no main effects, but a positive and marginally significant TMT interaction.

⁸³ It has been argued by other researchers that appearing on the Fortune list represents "prominence" (Mishina et al., 2010: 708), rather than reputation, and that only those firms that are awarded a high score can safely be considered to have a good reputation (Pfarrer et al., 2010). As such, I also tested H6 using a dummy variable to represent high reputation, coding the Fortune data as 1 if the firm scored, alternatively, at or above the 75 percentile and at or above the 50th percentile, and 0 otherwise. These alternative codings did not alter the results presented here.

firm's CEO and Directors, the more positive the tone of the subsequent media coverage of that firm. This relationship is not true in the case of the level of financial resources invested in the ECO position. I also report results for the other two affect-related categories in Table 11 (general affect in Model 3 and negative media affect in Model 9). As these dependent variables were not directly hypothesized, however, I will discuss these results in the Discussion section.

Insert Table 10 and Table 11 here

For each of the hypotheses H4 to H7, I also predicted a positive moderating effect for firms that adopt the ECO position in the absence of a critical ethics event. The non-significant coefficients for the main effect of absence and the interaction variables in Model 6 of Table 9, and in Table 10 and Table 11, suggest no support for H5d, H6b, or H7b. Other results do not present a very clear picture. Where there is some significance in Model 3 of Table 8 (H4b) and Model 3 of Table 9 (H5b), the coefficients are generally negative, rather than the hypothesized positive effect. As such, given that the main effect of absence remains non-significant throughout, I conclude that, contrary to my expectations, where an organization adopts along the wave does not influence its extent of implementation for these outcomes.

In the next section of this paper, I discuss the potential contributions of this study and the theoretical implications of my results.

Discussion and Contributions

The goal of this study is to better understand organizational heterogeneity in response to institutional pressures to conform. While recognizing that firms face external pressures that lead to adoption decisions, I tested the theory that responses differ in when they adopt and how they implement. I also argued that these implementation decisions are consequential.

The results presented above demonstrate support for my over-arching theory that organizations respond to a dynamic environment with the adoption of similar practices, but variance in terms of the implementation of those practices. In particular, firms adopted the ECO position in greater numbers following critical ethics events that focused societal attention on organizational ethics. Importantly, however, after initially increasing, this adoption rate declined over time. This effect held for events that occurred in three out of the four years that were identified to me in interviews with ECOs (1996, 2002, and 2004). A significant increase in adoption numbers following 1991 did not materialize, however. I suspect that was due to a combination of organizational inertia and low levels of broad acceptance of the value of organizational ethics in the early 1990s. At that time, the ECO position had to compete with the more established logic that spending on ethics or social responsibility was a distraction from the profit-maximizing responsibilities of the firm's top management team (Friedman, 1970; Levitt, 1958). It wasn't until later that the institutional environment shifted to validate organizational action in relation to ethics (Margolis & Walsh, 2003).

This ebb and flow of societal attention to ethics and wave-like patterns of responses expands our understanding of how organizations interact with dynamic institutions as they act at particular points in time in ways that signal conformity with

their environment. Central to understanding the theorized waves of institutional pressures, however, is an accurate operationalization of the critical events in a given context. In an attempt to better understand how the critical ethics events in this study influenced firm adoption decisions, I conducted further exploratory analyses to investigate whether the waves I found are unique to the events in the four years identified to me by ECOs.

First, I looked at the SOX (2002) event, which has the biggest effect size in the results reported in Table 5. Although this event is an important predictor of ECO adoption, the legislation was widely anticipated in response to a chain of events that began the year before with the collapse of Enron and the surfacing of other corporate scandals. It is arguable that it was then, in 2001, that public attention to the issue of organizational ethics peaked. If so, I would expect institutional pressures on firms to act to be higher in 2001 than in 2002. In order to test this idea, I re-ran my models using 2001 as the event year, rather than 2002, and obtained stronger results. Although the 1991 step function remained non-significant, both the 2004 step function and clock squared term became more strongly significant ($p < 0.001$ and $p < 0.01$, respectively).⁸⁴ These stronger results generated the more visible wave-like patterns presented in Figure 7.

Insert Figure 7 here

Second, as a more general robustness test for these results demonstrating support for the idea of institutional waves, I ran two alternative sets of wave step functions (first,

⁸⁴ In addition to being a more effective predictor of ECO adoption, including the Enron (2001) step function in place of the SOX (2002) step function has the advantage of giving more time between the final two events and also introducing a market-based stimulus to the model, in contrast to the regulatory/coercive nature of the other events.

1993, 1998, 2003, and 2007, and, second, 1992, 1997, 2000, and 2005), together with the appropriate re-setting clock and clock squared variables. Some of the years were significant (3 out of 4 and 2 out of 4, respectively). In both cases, however, the re-setting clock and its square were non-significant. This suggests that, although there might be higher rates of adoption in the period following a given year, these effects do not increase and then decrease over time in the wave-like patterns generated by the years identified to me by ECOs. Nevertheless, the significant step functions highlight the problems associated with year dummies, which are crude, all-encompassing measures of specific pressures in a complex institutional environment. My theory incorporates two kinds of waves—the waves of institutional pressures and the (lagged) waves of firm responses. Empirically, however, while I measure the waves of firm responses with a continuous measure, I only measure the ‘peaks’ of the waves of institutional pressures with dichotomous measures. An important component of future research designed to test the generalizability of this theory, therefore, will be developing a more fine-grained, continuous measure of institutional pressures. One way of doing this is article counts or coding specific to the events (e.g., a count of press mentions of Sarbanes-Oxley across all years).

While firms respond to these field-level forces by making adoption decisions, my results suggest that it is firm-level factors that better predict the level of resources the firm then commits to the ECO position in implementation. In particular, my results demonstrate that organizations respond to prior, severe ethics transgressions by committing greater levels of scarce and valuable resources (financial support and CEO and Director time) to the ECO position. This effect holds when resources are measured in the early years following adoption and when measured as the level of resources committed in 2008. By controlling for the firm’s timing of adoption in these models (i.e.,

whether adoption occurred in proximity to one of the critical ethics events), I test whether field-level forces or firm-level factors better predict extent of implementation. Across all of the implementation models, the timing control variable remains a non-significant predictor of resource commitments by firms. While I do not want to read too much into null results, including this control variable was an important test of the theory that is central to my dissertation. If the timing variable had been significant, for example, it would have caused me to rethink many of the underlying arguments I present here, as it would provide direct evidence that implementation is associated with field level pressures.

Finally, the results reported above demonstrate support for my theory that the extent of an organization's resource commitments is consequential, at least in some cases. Support for the hypothesized relationship between the extent of ECO implementation and subsequent positive affect in the firm's media coverage, in particular, suggests that knowledge of a firm's ethics implementation practices spreads to informed stakeholders and influences their subsequent evaluations of that firm.

In addition to these results that supported my theory and hypotheses, there were a number of results that were significant, but unexpected, as well as other hypotheses that were not supported. In contrast to my hypothesis that firms that adopted in response to the critical ethics events would demonstrate greater diversity in implementation due to their different convictions regarding the value of ethics to the firm, for example, the results demonstrate that diversity was lower, at least in terms of the amount of financial support committed to the ECO. Replacing the SOX step function with the Enron step function provides a clearer set of results here, with negative and strongly significant coefficients for all four critical ethics events and a negative and significant linear clock.

These results continue to contradict H1b, however, and the results analyzing diversity of TMT support implementation remain non-significant.

Although these diversity results were not predicted, they nevertheless represent a potentially interesting contribution to organization theory because they add to our understanding of how organizations allocate resources in reaction to strong institutional pressures (Lounsbury, 2001; Westphal et al., 1997). Supplementary analyses, for example, indicate that, in addition to there being less variance in terms of implementation across firms when adopting following a critical ethics event, the average amount of resources dedicated by those firms is lower in the early years (1991 and 1996), but higher later on (2002 and 2004) than firms that adopt in the absence of an event, who tend to dedicate below average amounts of resources uniformly across years (results available from author). These results are interesting because they run counter to what institutional theory would predict in terms of resource commitments by early adopters (who are thought to adopt for technical reasons and invest in customizing a practice) and later adopters (who are thought to adopt for institutional reasons and adopt without customization). As such, these results build on recent work that has begun to challenge the artificial dichotomy within institutional theory that firms adopt earlier for technical reasons, but later for institutional reasons (Kennedy & Fiss, 2009; Lounsbury, 2007). Conceptualizing the institutional environment as a series of events that focus societal attention on specific issues for relatively brief periods of time and drive firm behavior has direct implications for what institutional theory currently tells us about the way that firms interact with their environments. An important part of my future work will involve exploring this iterative relationship in more detail.

Contrary to my prediction that greater resource commitments in implementation would lead to lower levels of subsequent transgressions, the results suggest a positive

relationship. In other words, the more resources a firm commits to the ECO position, the greater the number of subsequent transgressions (controlling for prior transgressions). There may be a number of explanations for this outcome. It could be, for example, that drawing attention to the firm's problems by committing high levels of resources to the ECO position raises sensitivity within the organization to defined boundaries of acceptable and unacceptable ethical behavior that, in turn, identifies a greater number of problems. In this explanation, it is not that behavior has worsened, but that a higher proportion of existing problems are reported. As Amy Edmondson's work demonstrates, "psychological safety—a shared belief held by members of a team that the team is safe for interpersonal risk taking" enables group learning and performance (Edmondson, 1999) because it encourages speaking up (Edmondson, 2003). It seems intuitive to apply the same logic to ethics transgressions reporting within an organization (e.g., via the ethics helpline) as commitment by senior management to ethics in general, and the ECO in particular, helps create an ethical climate that encourages such behavior. Given the operationalization of ethics transgressions in this study (coded articles in the national business press), however, this sensitivity would need to transfer from the firm's employees to the journalists who cover the firms and report the ethics transgressions, which is potentially very interesting.

A more nefarious explanation might be that, rather than an indication of commitment to a position, organizations instead invest significant resources in a new position as a form of impression management. By investing up front in ethics *credits*, firms are purchasing good favor with external constituents that either allows them to continue operating as before, or even potentially engenders the expectation that later they can take advantage of this goodwill and commit more transgressions. This explanation

may also be possible, but is weakened somewhat given that most of the ECO's work is internal to the firm, rather than externally-directed.

This discussion, combined with the results supporting a relationship between ECO implementation and media coverage affect, prompted me to investigate affect as a potential mediator between implementation and subsequent transgressions. Focusing on the main effects results reported in Model 2 of Table 8, in which TMT support is a positive and marginally significant predictor of subsequent ethics transgressions, I added positive media coverage to the regression. While TMT support became non-significant, however, positive affect did not predict subsequent transgressions. When I included the more general measure of media coverage affect in the model, however, it is a positive and significant predictor of subsequent transgressions ($p < 0.05$), while the main effect of TMT support becomes non-significant. Including negative emotion in the model (instead of either positive emotion or general affect) produced an even stronger predictive relationship ($p < 0.001$), while the TMT support main effect again became non-significant. Because I know from my test of H7 in Table 11 that TMT support predicts media coverage affect (Model 3) and marginally predicts negative emotion (Model 9), the three regressions necessary to test for mediation are satisfied (Baron & Kenny, 1986). As such, both the general affect and the negative emotion contained within the media coverage of the firm fully mediate the relationship between the extent of ECO implementation (in terms of TMT support) and subsequent ethics transgressions by the firm. The test is not perfect as there is no time lag between the affect and transgressions measures (they are both constructed from data collected during the same time period, 2005-2008), but they present an interesting area for further exploration.⁸⁵ Because they

⁸⁵ When I use only transgressions in 2008, in order to test for more of a temporal causal relationship between affect (2005-2008) and transgressions (2008), the significance of affect becomes stronger ($p < 0.01$), while TMT support remains non-significant.

are formed from the same comprehensive dataset of newspaper articles that appeared in the national business press, they suggest an interesting relationship between firms' resource commitments, journalists' interpretation of those commitments (expressed in the emotive words used in their coverage of those firms), and the journalists' reporting of subsequent ethics transgressions by those firms.

It is possible that there are other moderators or mediators that will help explain the results gained from my initial analyses of the data more completely. These include both factors external to the focal firm (such as the extent and nature of ties among network partners) and factors internal to the firm (such as CEO/board relations and management incentives tied to the firm's ethical performance). Exploring these possible relationships provides several avenues for future research.

These results and possible alternative explanations prompted me to investigate this relationship between ECO implementation and ethics transgressions further, drawing specifically on the theory motivating a curvilinear relationship that I developed to motivate H5. These supplemental analyses (presented in Model 4 of Table 8) reveal a curvilinear relationship between TMT support and subsequent ethics transgressions. Thus, firms with higher levels of implementation and firms with lower levels of implementation at the point of adoption (in terms of the amount of time the ECO spends with the CEO and Board of Directors) both had lower levels of transgressions, while firms with more moderate TMT time commitments had elevated levels. These results hold when controlling for the number of years since adoption. This relationship is graphed in Figure 8.⁸⁶

⁸⁶ When I test for affect as a mediator of this curvilinear relationship, affect is a positive and significant predictor of subsequent transgressions ($p < 0.01$). Including this variable in the model, however, does not alter the significant curvilinear effects for TMT support.

Insert Figure 8 here

Due to the endogenous nature of the relationships between prior transgressions, extent of ECO implementation, and subsequent transgressions, I also ran this model using a two-stage least squares regression (Shaver, 2005). 2SLS allows me to control more effectively for unobserved heterogeneity in the model. Unfortunately, however, 2SLS does not allow me to control for multiple endogenous variables, as is the case in my model. As such, I also used structural equation modeling using the Mplus 6.1 software package to run the same regressions in order to adequately test for mediation and control for the possibility of correlated error terms (Shaver, 2005). All results support the underlying significance levels reported in Table 8.

The null results that I obtained for the relationship between ECO implementation and the level of serious contacts (H5c) also prompted me to investigate further. Rather than the negative relationship I hypothesized, I tested whether this relationship was also curvilinear, as I had initially hypothesized for total contacts (H5a). The positive and significant coefficient for the TMT support main effect, together with the negative and significant coefficient for the TMT support squared term in Model 7 of Table 9, demonstrate this relationship. Figure 9 graphs the curvilinear relationships generated by these supplemental analyses.

Insert Figure 9 here

Taken together, these results provide support for a curvilinear relationship between the extent of implementation of the ECO position (in terms of TMT support) and an organization's subsequent ethical performance. This applies in terms of severe ethics transgressions, as well as the number of serious incidents reported to the firm's ethics helpline. In other words, while those firms that commit large amounts of resources to the

ECO position see lower levels of subsequent transgressions and serious inquiries, this outcome is also true for those firms that make weaker resource commitments. It is only those firms committing moderate levels of resources that see elevated levels of negative activity. A theoretical explanation for these results could be that firms without many prior transgressions do not need to commit large amounts of resources to the ECO position (because they do not have a problem) and continue to commit low levels of transgressions subsequently. This conclusion is partially supported by the positive and strongly significant coefficient for prior transgressions in Table 8. Further work investigating the consequences of specific kinds of behaviors (e.g., do lower transgressions due to lower implementation result in better or worse organizational outcomes than lower transgressions due to higher implementation) would help clarify these results.

Overall, these results regarding the consequences of resource commitments to the ECO indicate that, rather than benefit to the organization being determined largely by the point of adoption (earlier or later in the diffusion curve), the extent of implementation is a more important indicator. However, this relationship between implementation and benefit is complex, with low transgressions and low helpline activity resulting from both high and low levels of resource commitments. While a prior poor ethical track record indicates a higher level of helpline activity across all models in Table 9, for example, those firms that have not performed poorly in the past and do not invest heavily in the ECO position, continue to see positive outcomes (in terms of lower levels of serious helpline inquiries).

What is interesting about these results concerning the consequences of the extent of ECO implementation is that, predominantly, where I find support for my hypotheses or other supplemental analyses, it is TMT support, rather than financial support, that is predictive. Reinforcing the factor analyses results presented in Table 1 that these are

independent constructs, they appear to have very different effects on the outcome variables I study. This is contrary to my hypotheses (H4-H7), in which I predicted they would have the same effects. Where financial support is predictive, however, it tends to be only marginally significant (Model 3 of Table 8) or it is the squared term that is significant with no main effect (Model 3 of Table 9). In contrast, when extent of ECO implementation is the dependent variable (H1b, H2, and H3), financial support is as important, if not more important, than TMT support. I conclude from these results that, while firms respond to prior mistakes, such as an ethics transgression, by committing a broad range of resources (both financial and TMT time), it is TMT time that determines the attention of the firm (Ocasio, 1997), which is subsequently consequential.

In terms of the hypotheses in my study that were not supported, I found no evidence that an organization's prior track record in relation to ethics and social responsibility had any influence on extent of implementation, indicated by the non-significant coefficients for both KLD strengths and KLD concerns across all models in Table 7. This could be because an organization's values and culture do not affect its subsequent behavior. It could also be that a "quantitative measurement of corporate social action" (Mattingly & Berman, 2006: 28), as measured by a third-party organization such as KLD, better captures the firm's externally-directed CSR behavior, rather than its internally-focused ethical beliefs and values. Additional questions are raised as a result of the low correlation between KLD concerns and my measure of prior ethics transgressions that is reported in Table 4 (0.34). It may be that in order to truly capture the internal ethical culture and fundamental values of an organization, it is necessary to conduct field work observation and qualitative interviews inside firms.

I also found no evidence that the level of resource commitments by firms to the ECO position had any influence on the firm's subsequent reputation (as measured by the

Fortune data), even though I found support for the relationship between ECO implementation and the level of positive affect in a firm's subsequent media coverage. This discrepancy in the results for these two reputation measures may be explained by the more accurate and complete data collected for the affect measure (specific articles about each organization in my dataset), versus the Fortune data with its issues related to incomplete coverage and measurement bias (Deephouse, 2000), and construct validity (Brown & Perry, 1994; Fryxell & Jia, 1994). It could also be that there are simply too many intervening factors between a firm's commitment to the ECO position and a macro-measure of the firm's reputation to identify a correlation between the two.

On further reflection, it may also be that these two variables are not alternative measures of reputation, but instead capture different constructs. This conclusion is supported by the correlations among these variables presented in Table 4 and the results of the factor analysis presented in Table 3. While reputation and affect are correlated (0.52), they also load onto the identified factor with different weightings, which suggests they explain a reasonable amount of variance that is not common to both. As a reflection of these differences, while the Fortune data have long been used as a proxy for firm reputation, media coverage affect is a more accurate operationalization of firm celebrity, with correspondingly different characteristics (Pfarrer et al., 2010). This distinction is reflected in the results, which may be a function of the time frame during which I observed my data. Given that a firm's reputation is assumed to be relatively stable and takes time to evolve, it may be less responsive to influence in the short- to medium-term than firm celebrity, which may be more susceptible to the changes introduced by a new ECO position.

Finally, the consistently non-significant main effect of the variable I use to capture the influence of the critical ethics events on firms across all hypotheses and the

weak support for the moderating effects of this variable indicate that, contrary to my expectations, whether an organization adopts the ECO position in response to a critical ethics event or in the relative absence of such pressures does not influence the level of resources it commits to the position in implementation. These results again reinforce the difficulty of using what are essentially year dummies to measure specific pressures in a complex institutional environment. As reported above, in supplementary analyses for my waves effects, I tested alternative years and found support among some of the year variables. This could be a function of any sizeable increase in ECO adoption from one year to the next. As such, it could be that events that influence the adoption of policies and practices related to ethics happen in many years, or that the effects of specific events last for more than one year. Both explanations suggest against relying on the boundaries that differentiate one year from another, which make it difficult (or perhaps meaningless) to try and tease apart different year effects. If it is hard to tell definitively where the effects of one event stop and another begins, adopting in the absence of such an event (based on different years) loses its theoretical interest and predictive power. This would explain why the absence variable was non-significant and why it failed to enhance any of the other hypothesized effects. It also reinforces the importance of identifying more specific measures that capture the critical events in which I am interested in order to better study their effects on firm behavior.

CONTRIBUTIONS

The main contributions of this study are made within the framework of furthering two contemporary debates within organization theory. First, is the idea that institutions are dynamic forces (Barley & Tolbert, 1997; Hinings et al., 2004; Lawrence & Suddaby, 2006) that ebb and flow as expectations evolve and coalesce and generate firm action in

response. It is only recently that institutional researchers have begun seriously to challenge our current understanding of how policies and positions diffuse through a population and to conceptualize a more comprehensive view of the complex range of motivations that drive adoption decisions (Kennedy & Fiss, 2009; Lounsbury, 2007). The results presented here join this debate to suggest that, rather than linear pressures to conform, firms have a complex relationship with dynamic institutional forces that peak and trough in waves as interests conflict, advance, and retreat. While societal expectations may trend in a particular direction, there are also critical events that concentrate the attention of stakeholders on specific issues (such as organizational ethics), resulting in higher levels of institutional intensity. As a result, the period-to-period turbulence leads firms to respond at different times and in different ways. I have extended this framing of institutions as dynamic forces with the new theoretical concept of *institutional waves*. Understanding the influence of these pressures on firm behavior in terms of waves helps us better appreciate the dynamic, iterative interactions organizations have with the environments in which they operate. In particular, it helps explain variance in terms of when firms adopt.

The second debate within organization theory to which this study contributes is the growing body of research that seeks to better understand how firms implement the practices they adopt (Ansari et al., 2010; Weber et al., 2009). This study joins this debate by drawing a clear theoretical and empirical distinction between adoption and implementation, and by testing the theory that different forces predict these different kinds of behavior at different levels of analysis. The combination of the results I present in support of the critical ethics events that predict timing of adoption but not extent of implementation suggests that, while it is broad, field-level forces that predict adoption, it is firm-specific factors (and not field-level forces) that predict implementation. In

particular, my contribution is to conceptualize a firm's implementation decisions (in relation to ethics) as a direct response to formative events (severe transgressions that carry the potential for reputational harm) that are predictive of subsequent behavior (resource commitments to the ECO position).

In addition, I contribute to this growing body of work on implementation by studying resource commitments in a context of increasing interest for management researchers (ethics), and also by demonstrating that these implementation decisions are consequential. Organization theorists know a great deal about how information (Burns & Wholey, 1993; Haunschild, 1993; Palmer et al., 1993) and other resources (Pfeffer & Salancik, 1978) pass along network ties. We still know relatively little, however, about the extent to which decisions that are internal to the organization (such as the implementation of a position) are visible to external observers. In an attempt to further our understanding in this respect, the results presented here provide evidence that firm actions in relation to ethics are visible to certain expert or informed stakeholders and are reflected in the media coverage the organization receives. In addition, the finding that firms' resource commitments (in terms of TMT time) had an influence on subsequent media coverage should be of interest to those researchers seeking to tease apart the antecedents and consequences of reputation and related constructs, such as organizational celebrity (Pfarrer et al., 2010).

Finally, studying the consequences of implementation makes an additional contribution to the literature on decoupling, which has made important strides in isolating specific antecedents (Sine & Tolbert, 2007; Westphal & Zajac, 1994, 2001) and consequences (Westphal & Zajac, 1998) of decoupling. To date, this work has focused on advancing our knowledge of decoupling within a framework of power and dependence relations among key organizational constituents (George et al., 2006). For example, in

addressing the research question ‘Why do firms decouple?,’ Westphal and Zajac (1994, 2001) argue that powerful CEOs decouple long term incentive compensation as a way of retaining discretion over resource allocation within the firm. Similarly, Fiss and Zajac (2004, 2006) demonstrate that German firms decouple a change in governance structure to appease specific institutional stakeholders, while Basu, Dirsmith, and Gupta (1999) conclude that the General Accounting Office’s audit reporting process is complex and heavily influenced by the relative power of specific external constituents (namely Congress). In framing this socio-political perspective, researchers have portrayed decoupling as a reflection of relative power that is employed in attempts to mediate among competing demands (George et al., 2006). While not denying that power and dependence relations are important factors that affect decoupling, this study presents the foundation for a broader perspective that encompasses an organization’s set of prior experiences and patterns of behavior as indicative of when a firm might act more or less substantively.

LIMITATIONS

In addition to those already identified, there are a number of limitations to the data in this study that can be improved upon in future work.

The most important limitation is that the survey I used to gather the data that is central to this dissertation was distributed only to organizations that are members of the ECOA. My motivation for obtaining these data was that, although highly sought after, to my knowledge, the ECOA had not allowed an academic to design and administer a survey to its membership prior to my survey. The sponsorship of the ECOA allowed me to secure the high response rate that I achieved (51.7%), while also providing access to the kinds of proprietary data (commitments of money and TMT time) that are otherwise

difficult to obtain. As such, these data provide a unique insight into an area of management and organizations research (organizational ethics) in which there is considerable interest (Margolis & Walsh, 2003; Orlitzky et al., 2003).

Despite this opportunity, there is the possibility that ECOA membership reflects some predisposition to ethical behavior that resulted in a bias in my sample. I addressed this possibility of a bias and why I think this issue is less of a concern with these data in the section on Potential Methods Biases, including citing prior research that found that inter-organizational affiliations, such as Association membership, can be a source of decoupling, rather than necessarily a reflection of genuine behavior (Westphal et al., 1997). Nevertheless, while the ECOA reports that most firms have now adopted the ECO position (i.e., there is not a large population of non-adopters to sample), there are many firms that have adopted the ECO position, but not joined the ECOA. An ideal sample, therefore, would include non-members of the ECOA. Addressing this issue of a potential bias conclusively is important because, while also possibly influencing the results of this study, such a bias also challenges the generalizability of my findings, rendering any conclusions applicable only to those organizations likely to join the ECOA. As such, in future research, surveying non-members would provide a robust data source to supplement the unique data I collected for this dissertation.

A second limitation of this dissertation emerged from relying on multiple secondary datasets as proxies for complex organizational phenomena. In particular, utilizing the KLD data as a proxy for an organization's ethical values turned out to be problematic. Attempting to measure the qualitative nature of an organization's ethical values using a third-party, quantitative assessment of degree of CSR action was probably a large part of the reason for the null results I received in testing H2. In addition, given the issues identified by prior researchers in connection with the Fortune data, in

retrospect, it seems there are too many intervening influences to expect the level of resource commitments to the ECO to explain any variation in this firm-level outcome.

A final limitation emerges from the use of a survey to collect historical data at a single point in time. Given the nature of the relatively objective measures I requested and a design that separated questions concerning related constructs, I think the potential for various methods biases is less of a concern in this study. Nevertheless, returning to the ECOA and conducting an additional survey in the future would provide a second data point and the possibility to ask more detailed longitudinal research questions.

Conclusion

This dissertation contributes to existing theory and research in a number of ways. First, it investigates how shifts in institutional pressures influence adoption behavior at different points in time. Specifically, I develop the theoretical concept of institutional waves to demonstrate how institutional pressures ebb and flow in line with societal attention to critical ethics events, with different firms responding at different times to the evolving intensity of these forces. Second, it provides preliminary support for the theory that, while it is field-level forces that predict adoption, it is firm-specific forces that are better predictors of resource commitments in implementation. In particular, I demonstrate how organizations respond to formative events (prior ethics transgressions) by committing higher levels of both financial and TMT time resources to the ECO position. And, third, I demonstrate that these implementation decisions are consequential for firms in the media.

Finally, in the broader picture, this study extends the debate between the environment (structure) and firm (agency) as the primary determinant of firm behavior into the area of organizational ethics. As argued above, in spite of evidence that firms today face increasing calls for greater ethical behavior, empirical research in this area in the top organizations and management journals is scarce. Operationalizing organizational responses to calls for greater ethical behavior in terms of their adoption and implementation of the ECO position reinforces the argument that, while it is the institutional environment that defines the parameters within which socially-acceptable action is taken, organizations are actors that respond in different ways to a given institutional pressure in the areas over which they have more direct control.

Figures and Tables

Figure 1: The Proposed Antecedents and Consequences of the Adoption and Implementation of the ECO Position

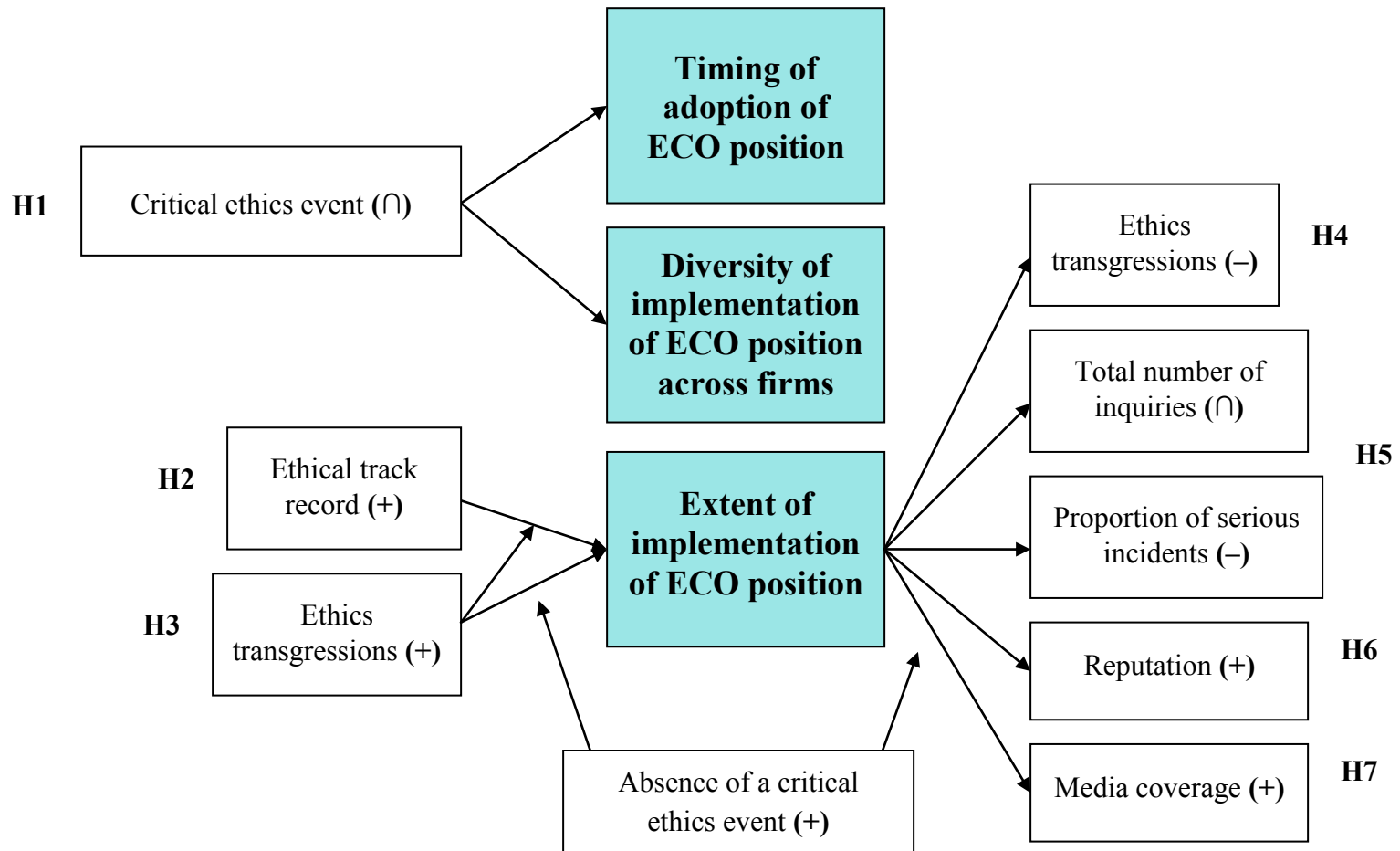


Figure 2: Total Ethics and Compliance Officers Association Membership (1992 to 2007)

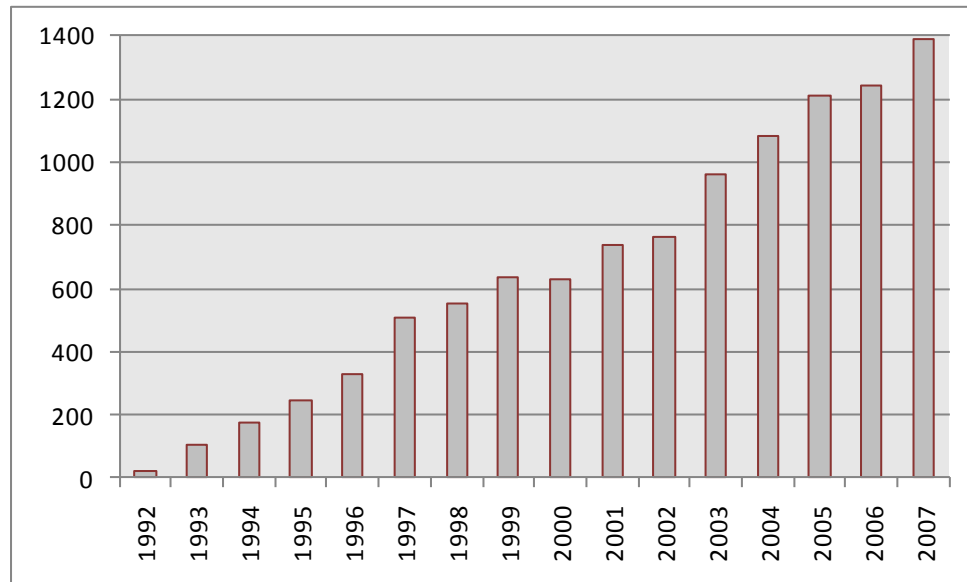


Figure 3: Growth in Proportion of Ethics Articles in the Business Media (1980-2007)

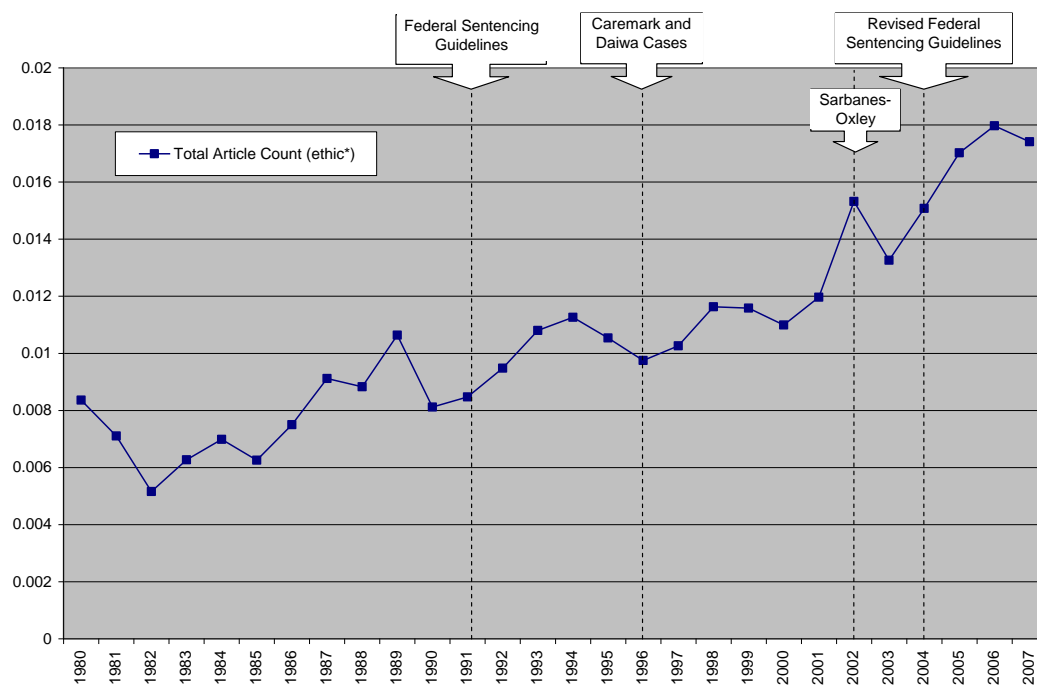


Figure 4: 2008 ECOA Survey – Invitation to Participate



Building trust and corporate integrity worldwide

2008 ECOA SURVEY

Dear ECOA member,

Much has changed in the ethics and compliance field in recent years and the ECOA continues to evolve in response. We have expanded in terms of our membership and the services we deliver on a day-to-day basis. To ensure we continue to provide valuable services to our members, we seek to use the **2008 ECOA Survey** to better understand your concerns in this new environment.

Our last member survey was two years ago. Unlike that instrument, which asked your preferences about the ECOA and the services it provides you, this survey asks about the experiences of the senior ethics and compliance officer in your organization. Specifically, the purpose of this study is to examine factors that affect the ability of the senior ECO to do his/her job. It includes questions regarding both specific aspects of the senior ECO's job, as well as the environment in which he/she works.

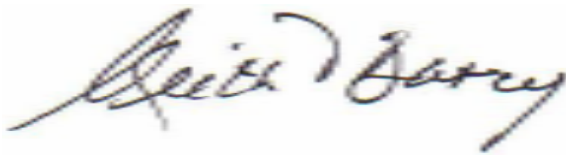
Your participation in the survey is entirely voluntary and without risk. You may decline to answer any question and you have the right to withdraw at any time. **Your answers will be completely confidential. No individual- or organization-specific information will be made publicly available or used by the ECOA.** There are a total of 55 questions in the survey, which should take approximately 20 minutes to complete. The deadline for completion is Friday, September 26, 2008.

The survey was written, and is administered, by David Chandler of the McCombs School of Business at the University of Texas at Austin. As such, the resulting data will be used not only to further our understanding of how organizations deal with ethics and compliance issues, but also to support academic research. Importantly, results will be published **only in aggregate, summary form**. In addition, all respondents will have the option of receiving a free summary of findings from this survey (**aggregate data only**), including benchmarking, industry-specific reports, from the ECOA.

If you agree to participate, please complete the 2008 ECOA Survey by clicking on the following link and entering the login code below:

Link: <http://www.bus.miami.edu/2008ECOASurvey/>
Login code: nj77cd

We realize you are very busy, but this information is vital to our work and we appreciate your time.

A handwritten signature in blue ink that reads "Keith Darcy". The signature is fluid and cursive, with the first name "Keith" and last name "Darcy" clearly distinguishable.

Keith Darcy
Executive Director
Ethics & Compliance Officer Association

If you have any questions about the study, please contact David Chandler (david.chandler@phd.mcombs.utexas.edu). In addition, you may contact the study advisor, Pamela Haunschild, Ph.D., Chair, Management Department, University of Texas at Austin, at (512) 471-5081 (pamela.haunschild@mcombs.utexas.edu). If you have any question about your rights as a research participant, please contact Jody Jensen, Ph.D., Chair, University of Texas at Austin Institutional Review Board for the Protection of Human Subjects, (512) 232-2685 (orsc@uts.cc.utexas.edu).

Figure 5: ECO Adoptions Among ECOA Member Organizations (1990-2008)

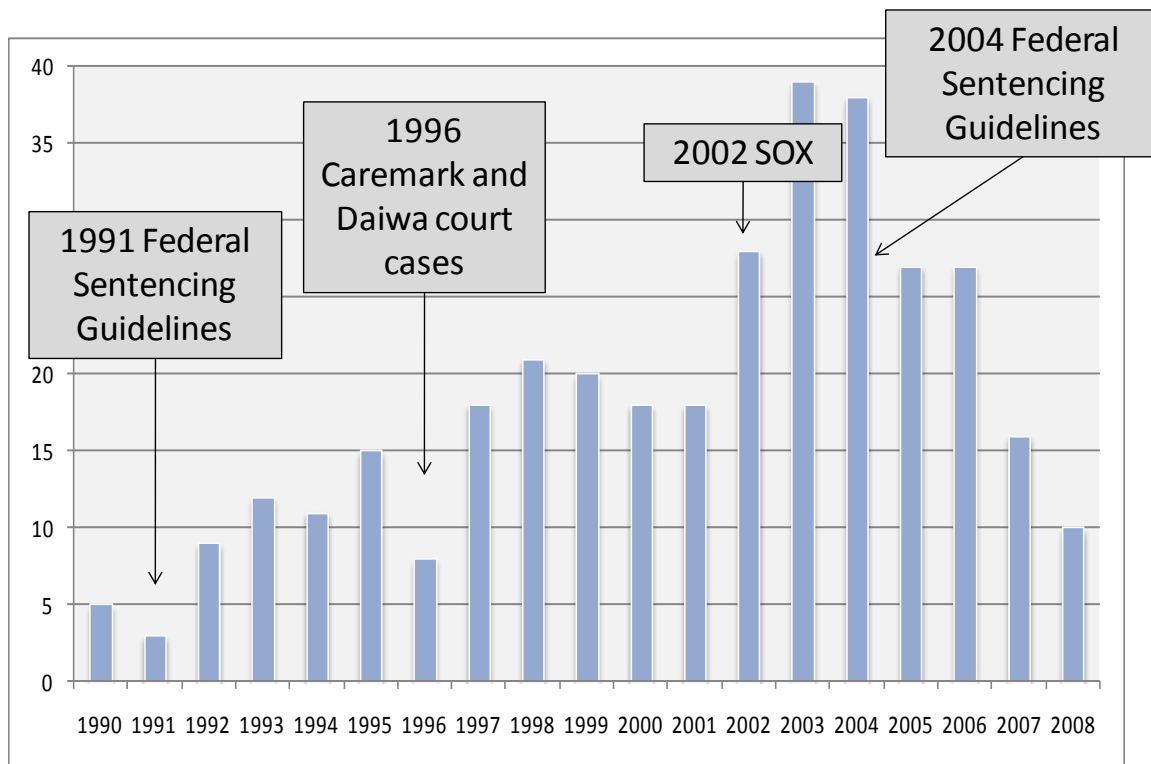


Table 1: Factor Solutions for Implementation of the ECO Position

Rotated Factor Pattern Standardized Regression Coefficients (Years 1-3)			Rotated Factor Pattern Standardized Regression Coefficients (2008)		
	Factor 1 Financial Support	Factor 2 TMT Support		Factor 1 Financial Support	Factor 2 TMT Support
ECOFullYear1	0.8216	.	ECOBudget	0.6630	.
ECOFullYear2	0.8380	.	ECOFullEmps	0.6947	.
ECOFullYear3	0.8329	.	ECOPartEmps	0.6262	.
ECOPartYear1	0.7441	.	CEOMeet	.	0.7377
ECOPartYear2	0.7263	.	BoardMeet	.	0.6913
ECOPartYear3	0.5596	.	Eigenvalue	1.3234	1.2246
CEOMeetYear1	.	0.5896			
CEOMeetYear2	.	0.7924			
CEOMeetYear3	.	0.7877			
BoardMeetYear1	.	0.7414			
BoardMeetYear2	.	0.8372			
BoardMeetYear3	.	0.8330			
Eigenvalue	3.6776	3.6460			

Table 2: Organizational Ethics Transgressions (n = 40)

Organizational Transgression	Rank	Severity	σ
Bribery (in the U.S. or overseas)	1	4.40	0.77
Obstruction of justice	2	4.35	1.03
Earnings manipulation	3	4.30	1.14
Antitrust violation	4	4.18	0.82
Retaliation against employee for helpline use	5	4.15	1.01
Workplace violence	6	4.08	1.29
Money-laundering violation	7	4.05	1.19
Sexual harassment	7	4.05	0.93
Insider trading	9	3.88	1.24
Tax evasion	10	3.85	1.21
Privacy / data protection law violation	11	3.84	0.90
Violation of procurement policies (e.g., bid-rigging), including False Claims	11	3.84	0.82
Theft / Embezzlement / Fraud	13	3.81	1.07
Discrimination of a protected class (e.g., race, gender, age)	14	3.74	0.90
Violation of environmental regulation	15	3.66	0.99
Product quality and compliance	16	3.63	1.17
False advertising / deceptive marketing	17	3.56	1.29
Intellectual property policy violation (e.g., trademark, patents, trade secrets)	18	3.45	1.01
Violation of proprietary / confidential information policy	18	3.45	1.13
Worker safety violation	20	3.33	1.16
Export / Import regulation violation	21	3.32	1.12
Political contributions and activities / lobbying	22	3.20	0.91
Violation of conflict-of-interest policy	23	3.18	1.06
Records retention / destruction policy violation	24	3.03	1.19
Wrongful discharge	25	3.00	1.13
Violation of gifts / gratuities / entertainment policy	26	2.98	1.23

Table 3: Factor Solution for Reputation (lagged) and Reputation (lead)

Factor Pattern		Factor Pattern	
Standardized Regression Coefficients		Standardized Regression Coefficients	
	Factor 1		Factor 1
	lagReputation		leadReputation
lagFortune	0.6778	leadFortune	0.6251
lagAffect5	0.9810	leadAffect5	0.9704
lagposemo5	0.9478	leadposemo5	0.8834
lagnegemo5	0.9050	leadnegemo5	0.8488
Eigenvalue	3.1391	Eigenvalue	2.8331

Table 4: Descriptive Statistics and Pearson Correlation Coefficients

Variables	Obs.	Mean	σ	Min.	Max.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
(1) Financial Support Diversity (H1)	289	114.24	320.75	-356.71	818.55	1.00																							
(2) TMT Support Diversity (H1)	289	-8.45	325.93	-628.67	672.28	0.11	1.00																						
(3) Financial Support, Years 1-3 (H2/H3)	289	0.02	1.07	-2.01	5.75	0.12	0.07	1.00																					
(4) TMT Support, Years 1-3 (H2/H3)	289	0.01	1.08	-1.23	9.81	0.03	0.15	0.11	1.00																				
(5) Financial Support, 2008 (H2/H3)	289	-0.04	1.00	-1.02	5.12	-0.02	0.12	0.14	0.47	1.00																			
(6) TMT Support, 2008 (H2/H3)	289	0.03	1.06	-2.81	5.31	0.13	0.13	0.61	0.19	0.24	1.00																		
(7) Supsequent Ethics Transgressions (H4)	289	31.62	64.82	0.00	372.10	-0.08	0.04	0.05	0.15	0.32	0.01	1.00																	
(8) Total Helpline Contacts (H5)	289	464.70	862.05	0.00	5000.00	-0.10	0.03	-0.05	0.03	0.27	0.02	0.21	1.00																
(9) Serious Helpline Contacts (H5)	289	162.98	296.81	0.00	1750.00	-0.10	0.06	-0.04	0.04	0.25	0.01	0.18	0.84	1.00															
(10) Organizational Reputation (H6)	289	4.93	9.57	0.00	32.82	-0.04	0.02	-0.03	0.05	0.12	-0.08	0.35	0.24	0.26	1.00														
(11) Media Coverage Positive Emotion (H7)	289	5.18	4.39	0.00	16.97	-0.08	-0.02	-0.04	0.15	0.27	-0.02	0.41	0.17	0.18	0.42	1.00													
(12) Environment	289	1.10	0.27	0.53	1.49	0.07	0.09	-0.01	0.08	-0.06	-0.07	0.10	-0.06	-0.07	0.02	0.03	1.00												
(13) 1-Digit SIC 0	289	0.00	0.06	0.00	1.00	-0.02	0.00	-0.06	-0.04	-0.05	0.02	-0.03	-0.03	-0.03	-0.07	-0.05	1.00												
(14) 1-Digit SIC 1	289	0.03	0.17	0.00	1.00	-0.01	0.00	-0.08	-0.10	-0.07	-0.03	0.07	-0.06	-0.07	0.01	0.10	-0.02	-0.01	1.00										
(15) 1-Digit SIC 2	289	0.04	0.20	0.00	1.00	-0.11	0.06	-0.09	-0.05	-0.04	-0.06	-0.04	-0.04	-0.01	0.01	0.00	0.05	-0.01	-0.04	1.00									
(16) 1-Digit SIC 3	289	0.25	0.43	0.00	1.00	-0.14	-0.06	-0.23	0.02	-0.04	-0.22	0.05	-0.04	-0.04	0.06	0.11	0.12	-0.03	-0.10	-0.12	1.00								
(17) 1-Digit SIC 4	289	0.16	0.37	0.00	1.00	0.03	-0.11	0.18	0.14	0.06	0.02	-0.05	-0.04	-0.01	-0.07	0.11	-0.08	-0.03	-0.08	-0.09	-0.25	1.00							
(18) 1-Digit SIC 5	289	0.02	0.14	0.00	1.00	-0.05	0.00	0.58	-0.13	-0.01	0.31	-0.03	-0.07	-0.07	-0.02	-0.12	-0.06	-0.01	-0.03	-0.03	-0.08	-0.06	1.00						
(19) 1-Digit SIC 6	289	0.04	0.19	0.00	1.00	-0.13	-0.04	-0.03	-0.07	-0.01	-0.01	0.10	0.59	0.41	0.13	0.05	0.09	-0.01	-0.04	-0.04	-0.11	-0.09	-0.03	1.00					
(20) 1-Digit SIC 7	289	0.16	0.36	0.00	1.00	0.32	0.20	-0.01	0.01	0.02	-0.01	0.05	-0.04	-0.01	0.04	-0.01	-0.09	-0.03	-0.08	-0.09	-0.25	-0.19	-0.06	-0.09	1.00				
(21) 1-Digit SIC 8	289	0.11	0.31	0.00	1.00	0.15	0.07	0.07	0.14	0.05	0.18	-0.02	-0.02	0.01	0.03	-0.03	-0.03	-0.02	-0.06	-0.07	-0.20	-0.15	-0.05	-0.07	-0.15	1.00			
(22) Ownership	289	0.84	0.36	0.00	1.00	-0.08	-0.06	-0.02	0.08	0.04	-0.09	0.13	0.04	0.04	0.16	0.28	0.06	0.03	0.02	0.09	0.25	0.06	0.00	0.04	0.03	-0.01	1.00		
(23) Firm Age (logged)	289	3.51	1.27	0.00	5.39	0.20	-0.02	-0.01	0.01	0.11	0.02	0.07	0.03	0.02	0.13	0.11	0.00	0.04	0.01	0.02	-0.06	0.02	-0.02	0.01	0.12	0.01	-0.07	1.00	
(24) Firm Size (logged)	289	8.77	2.50	0.69	14.46	-0.15	0.03	-0.04	0.07	0.10	0.05	0.18	0.25	0.26	0.22	0.24	0.03	-0.05	0.04	0.04	-0.01	-0.05	-0.04	0.15	-0.02	0.04	0.06	0.10	1.00
(25) Firm Slack	289	0.40	0.49	0.00	1.00	-0.01	0.05	0.08	0.16	0.07	0.16	0.01	0.01	-0.03	0.07	-0.05	-0.05	0.07	-0.03	0.08	0.07	-0.06	0.08	-0.09	-0.02	0.08	0.08	0.09	-0.06
(26) ECO Status	289	0.64	0.48	0.00	1.00	0.10	0.07	0.23	0.17	0.22	0.20	0.07	0.09	0.11	0.04	0.06	0.07	-0.08	-0.03	-0.02	-0.12	0.10	0.11	0.04	0.11	0.01	0.03	0.11	-0.01
(27) ECO Gender	289	46.64	4.30	27.50	61.50	0.04	0.10	0.03	-0.11	-0.08	0.05	-0.06	-0.03	-0.07	-0.09	-0.05	0.18	-0.05	0.00	0.10	-0.05	0.00	0.00	0.00	-0.04	0.05	-0.02	-0.07	-0.04
(28) ECO Education	289	0.34	0.44	0.00	1.00	0.00	0.13	0.10	0.01	0.03	0.09	0.08	0.10	0.08	0.04	0.15	0.13	0.05	0.01	0.16	0.03	0.03	0.09	0.00	-0.01	-0.02	0.18	0.10	0.05
(29) ECO Age	289	0.54	0.50	0.00	1.00	0.01	-0.02	-0.05	0.11	0.12	0.03	0.05	0.05	0.06	0.03	0.04	-0.03	0.01	0.03	-0.05	-0.03	-0.04	0.00	-0.01	0.02	-0.01	-0.14	0.09	0.04
(30) ECO Tenure	289	4.91	1.67	0.10	13.00	0.06	0.05	0.04	0.00	0.04	0.02	0.01	-0.08	-0.07	-0.02	-0.06	-0.10	0.01	-0.01	-0.15	-0.02	-0.09	-0.04	-0.09	0.08	0.07	-0.15	0.06	-0.07
(31) ECO Org Tenure	289	11.22	4.43	0.10	35.00	0.11	0.02	0.01	0.16	0.19	0.04	0.02	0.00	0.02	0.01	0.05	-0.14	0.01	0.08	-0.08	-0.12	0.02	-0.04	-0.03	0.15	0.01	-0.12	0.12	0.11
(32) Compliance Officer	289	0.28	0.44	0.00	1.00	0.09	0.01	0.07	-0.02	-0.06	0.08	0.08	-0.04	-0.04	0.04	0.14	0.00	0.10	-0.02	-0.05	-0.15	0.17	0.07	0.00	0.14	-0.02	0.05	0.10	0.04
(33) KLD Dummy	289	0.63	0.48	0.00	1.00	0.00	-0.05	0.01	0.02	-0.07	0.08	-0.21	-0.08	-0.08	-0.42	-0.45	-0.24	0.05	-0.07	-0.13	-0.12	-0.01	0.06	-0.03	0.04	0.01	-0.19	-0.07	-0.15
(34) Fortune Dummy	289	0.74	0.44	0.00	1.00	0.02	-0.05	0.03	-0.05	-0.24	0.07	-0.33	-0.19	-0.23	-0.69	-0.46	-0.03	0.04	-0.12	-0.03	-0.02	0.01	0.03	-0.09	-0.05	0.03	-0.15	-0.20	-0.20
(35) Total Articles	289	36.07	83.83	0.00	579.00	-0.05	0.03	0.00	0.10	0.25	-0.01	0.77	0.17	0.14	0.40	0.37	0.08	-0.03	-0.01	-0.02	0.13	-0.06	-0.06	0.04	0.04	-0.05	0.14	0.09	0.08
(36) fed (1991) step	289	0.97	0.16	0.00	1.00	0.06	0.01	-0.11	0.04	-0.05	-0.06	0.08	0.05	0.06	0.06	0.13	0.33	0.01	0.03	0.04	0.05	-0.10	-0.12	0.03	0.07	-0.01	0.04	-0.05	0.02
(37) court (1996) step	289	0.83	0.38	0.00	1.00	-0.13	0.16	0.00	0.03	-0.06	-0.09	0.04	-0.03	0.02	0.00	0.07	0.53	0.03	0.03	0.09	0.00	-0.08	0.00	0.04	-0.03	0.01	-0.02	-0.09	0.08
(38) sox (2002) step	289	0.55	0.50	0.00	1.00	0.03	0.04	0.03	0.07	-0.04	-0.07	0.08	-0.07	-0.09	-0.04	0.03	0.90	-0.07	-0.04	0.05	0.08	-0.05	-0.01	0.11	-0.09	0.00	0.03	0.00	0.00
(39) fed (2004) step	289	0.35	0.48	0.00	1.00	0.02	0.07	0.01	0.07	-0.10	0.01	0.00	0.02	0.01	-0.03	-0.04	0.69	-0.04	-0.09	0.07	0.09	-0.04	0.00	0.16	-0.09	-0.06	0.05	-0.05	0.03
(40) clock	289	2.75	1.53	0.00	6.00	0.00	-0.23	-0.05	-0.10	-0.13	-0.01	-0.07	-0.02	-0.02	0.02	-0.05	-0.20	0.05	0.02	0.06	0.01	-0.04	0.04	-0.10	0.00	-0.05	0.02	-0.01	0.03
(41) clock squared	289	9.89	9.86	0.00	36.00	-0.02	-0.20	-0.03	-0.11	-0.12	-0.02	-0.06	-0.03	-0.04	0.04	-0.04	-0.22	0.04	0.04	0.05	0.00	-0.04	0.08	-0.09	-0.01	-0.04	0.04	-0.01	0.03
(42) Absence of ethics event	289	0.51	0.50	0.00	1.00	0.11	-0.06	-0.01	-0.10	-0.10	0.08	-0.07	0.00	0.00	-0.02	-0.14	-0.26	0.06	-0.02	0.03	-0.04	0.00	0.05	-0.10	0.04	-0.09	-0.06	-0.03	0.04
(43) Prior KLD Strengths	282	2.97	11.09	-7.86	81.30	0.05	0.04	-0.01	0.05	0.13	-0.02	0.37	0.11	0.11	0.26	0.24	-0.02	-0.02	-0.03	0.05	0.07	0.04	-0.06	-0.02	0.08	-0.08	0.10	0.18	0.04
(44) Prior KLD Concerns	282	3.72	9.30	-10.14	53.10	-0.08	0.04	0.09	0.04	0.09	0.04	0.30	0.26	0.24	0.25	0.27	0.09	-0.02	0.05	0.06	0.08	0.09	-0.09	0.08	-0.10	-0.09	0.09	0.06	0.26
(45) Prior Ethics Transgressions	282	26.70	53.03	0.00	261.30	-0.05	0.01	0.04	0.14	0.32	0.02	0.79	0.17	0.16	0.38	0.43	0.10	-0.03	0.00	-0.03	0.13	-0.04	-0.05	0.09	0.03	-0.03	0.15	0.11	0.13
(46) Prior Reputation	282	6.48	7.97	0.00	20.59	-0.01	-0.01	-0.01	0.01	0.18	-0.05	0.36	0.20	0.21	0.70	0.51	-0.01	-0.05	0.06	0.07	0.14	-0.07	-0.01	0.07	0.03	-0.03	0.19	0.18	0.25
(47) Prior Media Coverage Affect	282	4.73	4.17	0.00	13.42	-0.04	-0.09	0.05	0.11	0.24	-0.02	0.39	0.15	0.19	0.39	0.80	0.00	-0.07	0.09	0.02	0.09	0.16	-0.02	0.03	-0.06	-0.05	0.31	0.13	0.13
(48) Prior Positive Emotion	282	3.31	3.00	0.00	11.43	-0.02	-0.09	0.05	0.10	0.20	-0.01	0.33	0.13	0.18	0.38	0.79	-0.03	-0.07	0.12	0.00	0.05	0.19	-0.03	0.03	-0.07	-0.02	0.30	0.13	0.12
(49) Prior Negative Emotion	282	1.39	1.36	0.00	5.26	-0.07	-0.08	0.05	0.13	0.27	-0.02																		

Table 4 (contd.): Descriptive Statistics and Pearson Correlation Coefficients

Variables	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)	(49)
(1) Financial Support Diversity (H1)																									
(2) TMT Support Diversity (H1)																									
(3) Financial Support, Years 1-3 (H2/H3)																									
(4) TMT Support, Years 1-3 (H2/H3)																									
(5) Financial Support, 2008 (H2/H3)																									
(6) TMT Support, 2008 (H2/H3)																									
(7) Subsequent Ethics Transgressions (H4)																									
(8) Total Helpline Contacts (H5)																									
(9) Serious Helpline Contacts (H5)																									
(10) Organizational Reputation (H6)																									
(11) Media Coverage Positive Emotion (H7)																									
(12) Environment																									
(13) 1-Digit SIC 0																									
(14) 1-Digit SIC 1																									
(15) 1-Digit SIC 2																									
(16) 1-Digit SIC 3																									
(17) 1-Digit SIC 4																									
(18) 1-Digit SIC 5																									
(19) 1-Digit SIC 6																									
(20) 1-Digit SIC 7																									
(21) 1-Digit SIC 8																									
(22) Ownership																									
(23) Firm Age (logged)																									
(24) Firm Size (logged)																									
(25) Firm Slack	1.00																								
(26) ECO Status	0.07	1.00																							
(27) ECO Gender	0.03	-0.15	1.00																						
(28) ECO Education	0.01	0.11	-0.02	1.00																					
(29) ECO Age	0.02	0.13	-0.17	0.09	1.00																				
(30) ECO Tenure	-0.06	0.01	0.08	-0.06	0.16	1.00																			
(31) ECO Org Tenure	-0.03	0.05	-0.05	-0.09	0.31	0.13	1.00																		
(32) Compliance Officer	0.00	0.06	0.04	-0.05	-0.02	-0.01	0.05	1.00																	
(33) KLD Dummy	0.00	-0.03	-0.12	-0.17	0.01	0.05	0.05	0.00	1.00																
(34) Fortune Dummy	0.01	-0.11	0.05	-0.13	-0.02	0.02	-0.04	0.01	0.55	1.00															
(35) Total Articles	0.06	0.04	-0.07	0.07	0.04	0.06	0.01	-0.01	-0.23	-0.40	1.00														
(36) fed (1991) step	-0.08	0.00	0.02	-0.07	-0.03	-0.03	-0.02	0.05	-0.13	-0.05	0.06	1.00													
(37) court (1996) step	-0.04	0.06	0.10	0.12	-0.03	-0.08	-0.05	-0.04	-0.25	-0.02	0.04	0.37	1.00												
(38) sox (2002) step	-0.05	0.05	0.19	0.11	-0.06	-0.10	-0.12	0.00	-0.24	-0.03	0.08	0.19	0.50	1.00											
(39) fed (2004) step	0.04	0.05	0.17	0.12	-0.01	-0.17	-0.22	0.01	-0.10	0.10	-0.06	0.12	0.33	0.66	1.00										
(40) clock	-0.01	-0.01	-0.11	-0.08	0.05	-0.11	-0.09	-0.08	0.04	0.08	-0.09	0.24	-0.06	-0.42	-0.11	1.00									
(41) clock squared	0.00	-0.01	-0.07	-0.09	0.06	-0.11	-0.07	-0.07	0.02	0.08	-0.08	0.16	-0.06	-0.42	-0.13	0.97	1.00								
(42) Absence of ethics event	0.04	0.07	-0.14	0.03	0.09	-0.06	-0.10	-0.08	0.13	0.12	-0.09	-0.16	-0.24	-0.47	-0.05	0.77	0.72	1.00							
(43) Prior KLD Strengths	-0.07	0.11	-0.04	0.11	0.11	0.09	0.10	-0.01	-0.24	-0.29	0.40	0.03	-0.03	-0.03	-0.11	0.02	0.02	0.03	1.00						
(44) Prior KLD Concerns	0.02	0.09	0.08	0.10	0.03	0.02	0.08	0.06	-0.22	-0.32	0.30	0.01	-0.01	0.08	0.01	-0.08	-0.07	-0.07	0.24	1.00					
(45) Prior Ethics Transgressions	0.02	0.09	-0.06	0.08	0.03	0.04	0.03	0.10	-0.23	-0.40	0.83	0.04	-0.01	0.11	-0.03	-0.12	-0.11	-0.12	0.39	0.34	1.00				
(46) Prior Reputation	0.00	0.05	-0.03	0.11	0.02	0.01	0.03	-0.01	-0.62	-0.76	0.39	0.06	-0.04	-0.03	-0.09	0.01	0.03	-0.05	0.37	0.38	0.41	1.00			
(47) Prior Media Coverage Affect	-0.01	0.02	-0.02	0.16	0.02	-0.04	0.03	0.10	-0.44	-0.43	0.39	0.07	-0.01	0.00	-0.08	-0.05	-0.04	-0.12	0.27	0.25	0.46	0.52	1.00		
(48) Prior Positive Emotion	-0.01	0.01	-0.01	0.15	0.01	-0.03	0.03	0.11	-0.44	-0.41	0.33	0.07	-0.02	-0.03	-0.11	-0.02	-0.01	-0.10	0.23	0.24	0.39	0.52	0.98	1.00	
(49) Prior Negative Emotion	-0.02	0.05	-0.03	0.18	0.03	-0.06	0.02	0.08	-0.36	-0.40	0.44	0.06	0.01	0.08	-0.01	-0.09	-0.09	-0.14	0.34	0.24	0.54	0.44	0.89	0.78	1.00

Table 5: The Relationship between Institutional Waves and Probability of ECO Adoption

	Discrete-time Event History Analysis, Complementary log-log model ECO Position (firms = 276)								
	Model 1			Model 2			Model 3		
	Controls			Step Functions			Event Clock		
	β		P-value	β		P-value	β		P-value
Intercept	-5.6822	***	<.0001	-4.4141	***	<.0001	-4.3205	***	<.0001
Environment	3.5182	***	<.0001	1.0110	‡	0.0785	-0.4471		0.5065
1-Digit SIC 0	1.0735		0.2915	1.2148		0.2297	1.3110		0.1906
1-Digit SIC 1	0.5186		0.1586	0.6527	‡	0.0762	0.7040	‡	0.0572
1-Digit SIC 2	-0.3632		0.2954	-0.3822		0.2722	-0.3916		0.2614
1-Digit SIC 3	-0.0035		0.9868	0.0032		0.9878	0.0314		0.8824
1-Digit SIC 4	0.2699		0.2143	0.3146		0.1500	0.3573		0.1038
1-Digit SIC 5	-0.3459		0.5159	-0.3225		0.5431	-0.3485		0.5138
1-Digit SIC 6	-0.0620		0.8573	-0.0337		0.9216	0.0070		0.9836
1-Digit SIC 7	0.4101	‡	0.0653	0.4824	*	0.0318	0.5161	*	0.0228
1-Digit SIC 8	0.2077		0.3991	0.2726		0.2733	0.2966		0.2390
Ownership	-0.1059		0.5878	-0.1251		0.5261	-0.1247		0.5311
Firm Age (logged)	-0.1001	‡	0.0703	-0.0980	‡	0.0750	-0.0912	‡	0.0981
Firm Size (logged)	0.0116		0.6664	0.0117		0.6671	0.0136		0.6204
fed (1991) step				0.3010		0.5465	-0.0394		0.9389
court (1996) step				0.7201	***	0.0002	0.7594	***	0.0001
sox (2002) step				0.7990	*	0.0108	1.9617	***	<.0001
fed (2004) step				0.6972	***	<.0001	0.6158	**	0.0011
clock							0.6842	***	0.0004
clock squared							-0.0686	*	0.0181
-2 Log Likelihood	1660.34			1616.95			1591.63		
Δ fit (χ²)				43.38	***	<.0001	25.33	***	<.0001
d.f.				4			2		
‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001									
Two-tailed tests for all control and hypothesized variables.									

Figure 6: The Probability of Adopting the ECO Position (1990-2007)

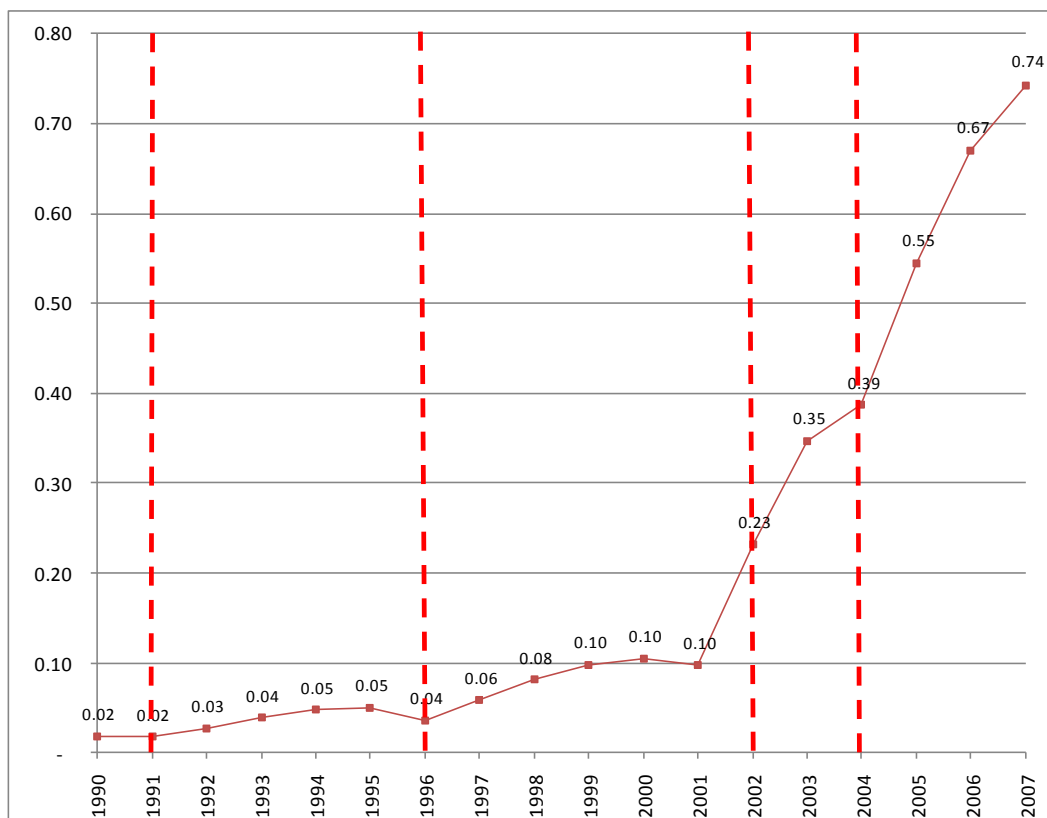


Table 6: The Relationship between Institutional Waves and ECO Implementation Diversity

Table 7: The Relationship between Prior Ethical Behavior and Extent of ECO Implementation (Years 1-3)

H2 & H3	OLS Regression Models											
	Extent of implementation of ECO Position (Years 1-3 following adoption)											
	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Financial Support		Financial Support		Financial Support		TMT Support		TMT Support		TMT Support	
	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value
Intercept	0.3146	0.6496	0.3978	0.5639	0.3227	0.6421	-2.3361 **	0.0069	-2.4262 **	0.0048	-2.6114 **	0.0029
Environment	0.2088	0.3203	0.2406	0.2535	0.1985	0.3450	0.5092 ‡	0.0513	0.6164 *	0.0187	0.6102 *	0.0211
1-Digit SIC 0	-0.7032	0.4118	-0.6432	0.4492	-0.6612	0.4334	-0.2550	0.8102	-0.0945	0.9284	-0.0946	0.9287
1-Digit SIC 1	-0.3377	0.2705	-0.3834	0.2077	-0.3820	0.2096	-0.4376	0.2495	-0.4612	0.2210	-0.4176	0.2733
1-Digit SIC 2	-0.3978	0.1639	-0.4186	0.1405	-0.4200	0.1390	0.0283	0.9362	0.0245	0.9444	0.0536	0.8799
1-Digit SIC 3	-0.3562 *	0.0353	-0.3749 *	0.0258	-0.3225 ‡	0.0560	0.1746	0.4037	0.1558	0.4528	0.2027	0.3362
1-Digit SIC 4	0.5344 **	0.0036	0.5010 **	0.0061	0.5475 **	0.0031	0.6110 **	0.0073	0.5947 **	0.0085	0.6575 **	0.0045
1-Digit SIC 5	4.2851 ***	<.0001	4.3517 ***	<.0001	4.3286 ***	<.0001	-0.8132 ‡	0.0988	-0.8600 ‡	0.0790	-0.8288 ‡	0.0922
1-Digit SIC 6	-0.0807	0.7788	-0.1089	0.7021	-0.1043	0.7158	-0.3143	0.3777	-0.3255	0.3564	-0.2682	0.4551
1-Digit SIC 7	0.0636	0.7248	0.1053	0.5586	0.1441	0.4263	0.1784	0.4260	0.1675	0.4528	0.2275	0.3163
1-Digit SIC 8	0.2885	0.1402	0.3231 ‡	0.0965	0.3451 ‡	0.0770	0.5860 *	0.0160	0.5775 *	0.0168	0.6378 **	0.0093
Ownership	-0.0441	0.7786	-0.0714	0.6492	-0.0589	0.7061	0.1286	0.5089	0.0543	0.7800	0.0611	0.7551
Firm Age (logged)	-0.0321	0.4339	-0.0359	0.3846	-0.0455	0.2689	-0.0507	0.3194	-0.0671	0.1901	-0.0694	0.1782
Firm Size (logged)	0.0029	0.8936	-0.0131	0.5506	-0.0109	0.6193	0.0359	0.1754	0.0295	0.2768	0.0279	0.3113
Firm Slack	0.1289	0.2177	0.1251	0.2322	0.1216	0.2453	0.3546 **	0.0065	0.3770 **	0.0039	0.3636 **	0.0059
ECO Status	0.2934 **	0.0076	0.2660 *	0.0152	0.2667 *	0.0144	0.2921 *	0.0316	0.2948 *	0.0298	0.2871 *	0.0351
ECO Gender	0.0384	0.7530	0.0005	0.9968	-0.0172	0.8874	-0.2600 ‡	0.0863	-0.2702 ‡	0.0737	-0.2618 ‡	0.0862
ECO Education	0.1238	0.2443	0.1051	0.3196	0.1106	0.2987	-0.0104	0.9372	-0.0261	0.8419	-0.0590	0.6580
ECO Age	-0.0238 ‡	0.0644	-0.0239 ‡	0.0614	-0.0219 ‡	0.0863	0.0158	0.3199	0.0143	0.3633	0.0169	0.2901
ECO Tenure	0.0453	0.1499	0.0464	0.1384	0.0492	0.1163	-0.0020	0.9590	0.0075	0.8469	0.0062	0.8737
ECO Org Tenure	0.0104	0.3997	0.0076	0.5358	0.0041	0.7402	0.0329 *	0.0322	0.0311 *	0.0420	0.0270 ‡	0.0824
Compliance Officer	-0.0691	0.5617	-0.1072	0.3687	-0.1372	0.2531	-0.1265	0.3916	-0.1787	0.2270	-0.2061	0.1706
KLD Dummy	-0.0701	0.5333	-0.0187	0.8713	0.0155	0.8939	0.1904	0.1729	0.2684 ‡	0.0611	0.3029 *	0.0380
Total Articles	0.0006	0.3441	-0.0005	0.5774	-0.0011	0.2195	0.0009	0.2437	-0.0009	0.4015	-0.0009	0.4118
Absence of ethics event	-0.0142	0.8953	0.0053	0.9605	0.0776	0.5827	-0.1877	0.1600	-0.1545	0.2463	0.0230	0.8967
KLD Strengths (wgt.)			-0.0021	0.6875	-0.0169	0.2760			-0.0011	0.8622	-0.0071	0.7131
KLD Concerns (wgt.)			0.0137 *	0.0238	-0.0089	0.4246			-0.0055	0.4615	-0.0060	0.6657
Ethics Transgressions (wgt.)			0.0572	0.1666	0.0890 ‡	0.0917			0.1459 **	0.0046	0.2171 **	0.0011
KLD Strengths * Absence					-0.0022	0.8336					0.0030	0.8200
KLD Concerns * Absence					0.0217 ‡	0.0727					0.0099	0.5126
Ethics Transgressions * Ab.					-0.0950	0.1465					-0.1370 ‡	0.0947
KLD Strengths * Transgressions					0.0041	0.2440					0.0012	0.7806
KLD Concerns * Transgressions					0.0055 ‡	0.0560					-0.0013	0.7265
r ²	0.44		0.45		0.47		0.20		0.23		0.24	
Adjusted r ²	0.38		0.39		0.40		0.13		0.14		0.14	
Δ r ²			0.01		0.01				0.02		-0.01	
d.f.			3		3						3	
Observations	282		282		282		282		282		282	
‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001												
Two-tailed tests for all control and hypothesized variables.												

Table 7 (contd.): The Relationship between Prior Ethical Behavior and Extent of ECO Implementation (2008)

H2 & H3	OLS Regression Models											
	Extent of implementation of ECO Position (2008)											
	Model 7		Model 8		Model 9		Model 10		Model 11		Model 12	
	FinSupport2008		FinSupport2008		FinSupport2008		TopSupport2008		TopSupport2008		TopSupport2008	
	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value
Intercept	-0.9781	0.2202	-1.1231	0.1460	-1.2056	0.1268	-0.5133	0.5333	-0.5209	0.5268	-0.4970	0.5543
Environment	-0.3708	0.1256	-0.2206	0.3493	-0.2082	0.3829	-0.0962	0.7000	-0.0187	0.9406	-0.0147	0.9540
1-Digit SIC 0	-0.4234	0.6674	-0.1780	0.8514	-0.1959	0.8379	0.2456	0.8095	0.3680	0.7168	0.3928	0.7005
1-Digit SIC 1	-0.6396 ‡	0.0702	-0.6874 *	0.0440	-0.6529 ‡	0.0593	-0.1428	0.6950	-0.1800	0.6198	-0.2016	0.5838
1-Digit SIC 2	-0.3131	0.3405	-0.3079	0.3321	-0.2941	0.3607	-0.4300	0.2058	-0.4431	0.1913	-0.4471	0.1930
1-Digit SIC 3	-0.2314	0.2333	-0.2550	0.1741	-0.2487	0.1933	-0.3716 ‡	0.0647	-0.3921 ‡	0.0507	-0.3798 ‡	0.0629
1-Digit SIC 4	-0.0029	0.9889	-0.0250	0.9020	-0.0340	0.8704	-0.0181	0.9334	-0.0448	0.8360	-0.0197	0.9294
1-Digit SIC 5	-0.1754	0.7005	-0.2366	0.5916	-0.2255	0.6122	1.9608 ***	<.0001	1.9690 ***	<.0001	1.9887 ***	<.0001
1-Digit SIC 6	-0.3261	0.3242	-0.3477	0.2756	-0.3458	0.2880	-0.0854	0.8027	-0.1064	0.7543	-0.0458	0.8949
1-Digit SIC 7	-0.2058	0.3227	-0.2088	0.3003	-0.1886	0.3592	-0.1047	0.6262	-0.0891	0.6784	-0.0737	0.7367
1-Digit SIC 8	-0.0242	0.9144	-0.0315	0.8846	-0.0136	0.9509	0.4791 *	0.0399	0.4923 *	0.0343	0.5166 *	0.0290
Ownership	0.1575	0.3834	0.0494	0.7784	0.0608	0.7315	-0.2036	0.2761	-0.2600	0.1661	-0.2695	0.1549
Firm Age (logged)	0.0433	0.3600	0.0229	0.6199	0.0230	0.6225	-0.0114	0.8156	-0.0226	0.6460	-0.0234	0.6380
Firm Size (logged)	0.0310	0.2071	0.0185	0.4504	0.0220	0.3785	0.0406	0.1105	0.0287	0.2737	0.0269	0.3133
Firm Slack	0.1001	0.4050	0.1221	0.2974	0.1234	0.2989	0.3006 *	0.0161	0.3113 *	0.0132	0.3134 *	0.0138
ECO Status	0.4143 **	0.0011	0.4196 ***	0.0007	0.4204 ***	0.0007	0.3276 *	0.0121	0.3148 *	0.0162	0.3145 *	0.0171
ECO Gender	-0.0285	0.8390	-0.0472	0.7288	-0.0320	0.8165	0.2108	0.1469	0.1852	0.2028	0.1788	0.2246
ECO Education	0.0209	0.8640	-0.0020	0.9864	-0.0046	0.9695	0.2044	0.1067	0.1857	0.1415	0.1743	0.1763
ECO Age	0.0095	0.5198	0.0077	0.5869	0.0071	0.6221	-0.0052	0.7315	-0.0061	0.6865	-0.0058	0.7091
ECO Tenure	-0.0087	0.8100	0.0064	0.8543	0.0087	0.8065	0.0045	0.9031	0.0105	0.7780	0.0066	0.8610
ECO Org Tenure	0.0323 *	0.0236	0.0299 *	0.0304	0.0290 *	0.0394	0.0065	0.6586	0.0040	0.7846	0.0016	0.9169
Compliance Officer	-0.2381 ‡	0.0829	-0.3223 *	0.0163	-0.3112 *	0.0229	0.0803	0.5706	0.0308	0.8289	0.0210	0.8848
KLD Dummy	-0.0573	0.6579	0.0513	0.6909	0.0603	0.6470	0.1052	0.4319	0.1764	0.2010	0.1818	0.1966
Total Articles	0.0026 ***	0.0004	0.0000	0.9917	-0.0002	0.8599	0.0005	0.5093	-0.0011	0.2873	-0.0009	0.3952
Absence of ethics event	-0.2440 *	0.0496	-0.1867	0.1212	-0.1239	0.4399	0.1491	0.2446	0.1781	0.1659	0.1958	0.2527
KLD Strengths (wgt.)			-0.0055	0.3471	0.0034	0.8485			-0.0017	0.7810	-0.0029	0.8764
KLD Concerns (wgt.)			-0.0056	0.4042	-0.0034	0.7903			0.0040	0.5753	0.0004	0.9737
Ethics Transgressions (wgt.)			0.2202 ***	<.0001	0.2294 ***	0.0002			0.1127 *	0.0228	0.1398 *	0.0290
KLD Strengths * Absence					-0.0118	0.3243					-0.0011	0.9342
KLD Concerns * Absence					-0.0020	0.8834					0.0183	0.2122
Ethics Transgressions * Ab.					-0.0121	0.8700					-0.0489	0.5360
KLD Strengths * Transgressions					-0.0003	0.9408					0.0003	0.9502
KLD Concerns * Transgressions					-0.0004	0.9004					-0.0015	0.6767
r ²	0.19		0.26		0.26		0.22		0.24		0.25	
Adjusted r ²	0.12		0.18		0.17		0.15		0.16		0.15	
Δ r ²			0.06		-0.01				0.01		-0.01	
d.f.			3		3						3	
Observations	282		282		282		282		282		282	

‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001

Two-tailed tests for all control and hypothesized variables.

Table 8: The Relationship between Extent of ECO Implementation (Years 1-3) and Subsequent Ethics Transgressions (2005-2008)

H4	OLS Regression Models							
	Subsequent Ethics Transgressions (2005-2008)							
	Model 1		Model 2		Model 3		Model 4	
	Controls		Main Effects		Interactions		Squared Terms	
	β	P-value	β	P-value	β	P-value	β	P-value
Intercept	-27.0536	0.4002	-18.6225	0.5676	-19.9763	0.5365	-11.6290	0.7186
Environment	5.8467	0.5481	3.4633	0.7231	4.0677	0.6751	3.8221	0.6928
1-Digit SIC 0	-4.8093	0.9033	-2.3899	0.9517	-9.5416	0.8084	-5.4031	0.8903
1-Digit SIC 1	25.8821 ‡	0.0688	28.4686 *	0.0458	28.0263 *	0.0475	30.5050 *	0.0317
1-Digit SIC 2	-8.7067	0.5105	-7.9377	0.5489	-7.2199	0.5828	-8.6003	0.5115
1-Digit SIC 3	-6.2689	0.4229	-6.0680	0.4418	-6.3659	0.4161	-8.4844	0.2795
1-Digit SIC 4	-1.9481	0.8178	-5.4867	0.5257	-5.9065	0.4979	-7.2438	0.3992
1-Digit SIC 5	10.9335	0.5521	4.8073	0.8320	16.9111	0.4622	-16.1004	0.5517
1-Digit SIC 6	8.4978	0.5238	10.1784	0.4445	11.5704	0.3812	12.9408	0.3267
1-Digit SIC 7	4.3975	0.6007	3.5352	0.6732	4.4769	0.5922	1.7365	0.8345
1-Digit SIC 8	4.2629	0.6381	1.4087	0.8776	0.1539	0.9865	0.4308	0.9620
Ownership	0.4373	0.9520	0.0301	0.9967	-0.0243	0.9973	-0.6064	0.9327
Firm Age (logged)	-1.7400	0.3642	-1.4556	0.4474	-1.2816	0.5002	-1.2261	0.5175
Firm Size (logged)	2.0470 *	0.0447	1.9261 ‡	0.0590	1.7985 ‡	0.0757	1.8191 ‡	0.0713
Firm Slack	-0.9275	0.8493	-2.6532	0.5916	-0.9115	0.8540	-1.5164	0.7576
ECO Status	-0.2519	0.9606	-1.9116	0.7113	-2.3538	0.6465	-1.7562	0.7346
ECO Gender	0.4926	0.9308	1.4372	0.8003	0.7646	0.8922	1.4320	0.7988
ECO Education	1.8251	0.7107	1.6380	0.7389	1.7425	0.7218	0.7529	0.8770
ECO Age	0.3784	0.5241	0.3607	0.5461	0.3501	0.5548	0.2199	0.7107
ECO Tenure	-1.0150	0.4852	-1.1043	0.4478	-1.0946	0.4487	-0.8745	0.5444
ECO Org Tenure	-0.3892	0.4974	-0.5353	0.3534	-0.4531	0.4289	-0.5387	0.3450
Compliance Officer	6.3039	0.2611	7.1958	0.1997	7.2211	0.1958	9.3079 ‡	0.0964
KLD Dummy	2.4668	0.6406	1.8070	0.7326	2.6560	0.6140	0.9057	0.8629
Total Articles	0.2990 ***	<.0001	0.3038 ***	<.0001	0.2948 ***	<.0001	0.2873 ***	<.0001
Prior KLD Strengths	0.3596	0.1376	0.3603	0.1355	0.3782	0.1147	0.3470	0.1461
Prior KLD Concerns	0.0982	0.7276	0.0869	0.7600	0.1494	0.5975	0.0586	0.8350
Prior Ethics Transgressions	0.5412 ***	<.0001	0.5227 ***	<.0001	0.5239 ***	<.0001	0.5189 ***	<.0001
Absence of ethics event	2.4386	0.6255	3.1609	0.5271	3.1827	0.5220	3.6267	0.4648
Financial Support			2.1557	0.4658	5.8221 ‡	0.0781	-0.8594	0.8054
TMT Support			3.9403 ‡	0.0967	2.7344	0.2714	11.8136 **	0.0079
Financial Support * Absence					-11.1459 *	0.0169		
TMT Support * Absence					5.6040	0.3700		
Financial Support ²							2.1172 ‡	0.0787
TMT Support ²							-1.4220 *	0.0212
r ²	0.69		0.70		0.71		0.71	
Adjusted r ²	0.66		0.66		0.67		0.67	
Δ r ²			0.00		0.01		0.01	
d.f.			2		2		2	
Observations	282		282		282		282	
‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001								
Two-tailed tests for all control and hypothesized variables.								

Table 9: The Relationship between Extent of ECO Implementation (Years 1-3) and Ethics Helpline Activity (2007)

Table 10: The Relationship between Extent of ECO Implementation (Years 1-3) and Organizational Reputation (2005-2008)

H6	OLS Regression Models Organizational Reputation (2005-2008)					
	Model 1 Controls		Model 2 Main Effects		Model 3 Interactions	
	β	P-value	β	P-value	β	P-value
Intercept	1.2247	0.8295	1.1822	0.8382	1.2924	0.8238
Environment	1.7532	0.3011	1.7648	0.3037	1.8068	0.2940
1-Digit SIC 0	-1.7941	0.7903	-1.8045	0.7902	-1.0004	0.8834
1-Digit SIC 1	-2.7677	0.2542	-2.7799	0.2562	-2.7368	0.2643
1-Digit SIC 2	-1.0049	0.6560	-1.0077	0.6580	-1.0950	0.6311
1-Digit SIC 3	-0.2520	0.8504	-0.2520	0.8530	-0.2341	0.8636
1-Digit SIC 4	-0.4385	0.7619	-0.4221	0.7770	-0.5297	0.7263
1-Digit SIC 5	-0.0706	0.9821	-0.0505	0.9897	-0.9942	0.8044
1-Digit SIC 6	3.3851	0.1369	3.3770	0.1403	3.2661	0.1546
1-Digit SIC 7	0.1644	0.9086	0.1684	0.9068	0.0136	0.9925
1-Digit SIC 8	1.6793	0.2774	1.6928	0.2817	1.7560	0.2660
Ownership	0.7038	0.5704	0.7059	0.5711	0.7266	0.5604
Firm Age (logged)	-0.2395	0.4698	-0.2409	0.4703	-0.2669	0.4252
Firm Size (logged)	0.1575	0.3672	0.1581	0.3692	0.1636	0.3543
Firm Slack	1.5857 ‡	0.0575	1.5941 ‡	0.0615	1.4788 ‡	0.0859
ECO Status	-0.8280	0.3433	-0.8204	0.3579	-0.8280	0.3548
ECO Gender	-1.0935	0.2600	-1.0982	0.2622	-1.0580	0.2813
ECO Education	-0.9864	0.2408	-0.9858	0.2442	-0.9544	0.2624
ECO Age	0.0509	0.6155	0.0510	0.6195	0.0540	0.5997
ECO Tenure	-0.0343	0.8900	-0.0340	0.8920	-0.0249	0.9208
ECO Org Tenure	-0.0160	0.8699	-0.0153	0.8772	-0.0210	0.8327
Compliance Officer	1.3900	0.1473	1.3859	0.1516	1.4403	0.1382
KLD Dummy	1.1591	0.3017	1.1627	0.3053	1.1561	0.3087
Fortune Dummy	-8.1883 ***	<.0001	-8.1892 ***	<.0001	-8.4189 ***	<.0001
Total Articles	0.0138	0.1098	0.0138	0.1123	0.0140	0.1087
Prior KLD Strengths	-0.0078	0.8509	-0.0078	0.8515	-0.0084	0.8420
Prior KLD Concerns	-0.0471	0.3407	-0.0471	0.3495	-0.0536	0.2899
Prior Ethics Transgressions	-0.0051	0.7116	-0.0051	0.7192	-0.0055	0.6979
Prior Reputation	0.5333 ***	<.0001	0.5333 ***	<.0001	0.5327 ***	<.0001
Absence of ethics event	1.3223	0.1242	1.3187	0.1278	1.3689	0.1155
Financial Support			-0.0084	0.9870	-0.3186	0.5772
TMT Support			-0.0196	0.9615	0.0064	0.9882
Financial Support * Absence					0.9958	0.2213
TMT Support * Absence					0.1142	0.9166
r ²	0.59		0.59		0.60	
Adjusted r ²	0.55		0.54		0.54	
Δr^2			0.00		0.00	
d.f.			2		2	
Observations	282		282		282	
‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001						
Two-tailed tests for all control and hypothesized variables.						

Table 11: The Relationship between Extent of ECO Implementation (Years 1-3) and Media Coverage Affect (2005-2008)

H7	OLS Regression Models Media Coverage Affect (2005-2008)																	
	Model 1 General Affect		Model 2 General Affect		Model 3 General Affect		Model 4 Postive Emotion		Model 5 Postive Emotion		Model 6 Postive Emotion		Model 7 Negative Emotion		Model 8 Negative Emotion		Model 9 Negative Emotion	
	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value	β	P-value
Intercept	-1.0307	0.7368	0.0498	0.9873	0.1394	0.9644	-0.5000	0.8186	0.1454	0.9477	0.2627	0.9058	-0.3742	0.7658	0.0878	0.9450	0.0768	0.9521
Environment	-0.9173	0.3277	-1.1055	0.2416	-1.1508	0.2247	-0.6148	0.3569	-0.7262	0.2808	-0.7859	0.2440	-0.4208	0.2702	-0.5010	0.1919	-0.4945	0.1996
1-Digit SIC 0	-1.8300	0.6275	-1.9046	0.6130	-1.9425	0.6086	-1.0089	0.7063	-1.0547	0.6938	-1.1899	0.6583	-1.0567	0.4949	-1.0769	0.4857	-0.9823	0.5281
1-Digit SIC 1	0.7700	0.5684	0.8960	0.5080	0.8748	0.5194	0.2323	0.8089	0.3082	0.7495	0.2799	0.7719	0.6349	0.2517	0.6877	0.2152	0.7001	0.2088
1-Digit SIC 2	-0.4360	0.7286	-0.5293	0.6741	-0.5047	0.6895	-0.0973	0.9132	-0.1566	0.8613	-0.1181	0.8952	-0.3753	0.4676	-0.4079	0.4302	-0.4244	0.4140
1-Digit SIC 3	0.7062	0.3419	0.5737	0.4443	0.5983	0.4264	0.8455	0.1097	0.7638	0.1530	0.7927	0.1382	-0.1601	0.6002	-0.2122	0.4911	-0.2166	0.4838
1-Digit SIC 4	-0.7758	0.3379	-0.9199	0.2659	-0.8043	0.3397	-0.0785	0.8916	-0.1617	0.7835	-0.0076	0.9899	-0.5867 ‡	0.0769	-0.6585 ‡	0.0520	-0.6892 *	0.0461
1-Digit SIC 5	-3.7244 *	0.0337	-2.5837	0.2311	-2.8729	0.1943	-2.4944 *	0.0450	-1.7982	0.2412	-2.0580	0.1898	-1.2144 ‡	0.0917	-0.7569	0.3927	-0.8083	0.3741
1-Digit SIC 6	-0.7849	0.5351	-0.6633	0.6000	-0.6977	0.5825	-0.1459	0.8710	-0.0734	0.9349	-0.1045	0.9075	-0.6555	0.2082	-0.6016	0.2473	-0.6071	0.2449
1-Digit SIC 7	0.4266	0.5935	0.3726	0.6407	0.4067	0.6134	0.3391	0.5503	0.3074	0.5885	0.3616	0.5267	0.0389	0.9056	0.0153	0.9629	-0.0065	0.9844
1-Digit SIC 8	0.1308	0.8793	-0.0395	0.9638	0.0133	0.9879	-0.0253	0.9670	-0.1239	0.8412	-0.0660	0.9152	0.1350	0.7032	0.0551	0.8777	0.0535	0.8820
Ownership	0.3453	0.6254	0.3081	0.6624	0.2955	0.6763	0.1659	0.7412	0.1426	0.7764	0.1293	0.7968	0.3111	0.2798	0.2925	0.3082	0.2974	0.3020
Firm Age (logged)	-0.1123	0.5391	-0.0933	0.6101	-0.0943	0.6072	-0.1100	0.3975	-0.0988	0.4487	-0.0977	0.4537	0.0115	0.8784	0.0195	0.7941	0.0179	0.8117
Firm Size (logged)	0.2775 **	0.0043	0.2608 **	0.0074	0.2652 **	0.0067	0.1728 *	0.0121	0.1628 *	0.0185	0.1673 *	0.0156	0.1056 **	0.0081	0.0984 *	0.0137	0.0985 *	0.0140
Firm Slack	-0.6086	0.1901	-0.7390	0.1172	-0.7834	0.1011	-0.5249	0.1116	-0.6016 ‡	0.0730	-0.6433 ‡	0.0579	-0.0830	0.6633	-0.1418	0.4636	-0.1483	0.4491
ECO Status	0.7794	0.1088	0.7095	0.1500	0.7384	0.1360	0.5312	0.1238	0.4906	0.1618	0.5237	0.1362	0.2138	0.2832	0.1812	0.3694	0.1773	0.3825
ECO Gender	-0.0686	0.8987	0.0325	0.9519	0.0621	0.9089	-0.1622	0.6714	-0.1019	0.7908	-0.0693	0.8571	0.0989	0.6552	0.1432	0.5187	0.1418	0.5247
ECO Education	0.4094	0.3824	0.4395	0.3483	0.4066	0.3887	0.3598	0.2793	0.3775	0.2572	0.3349	0.3166	0.0670	0.7283	0.0794	0.6800	0.0884	0.6488
ECO Age	0.0613	0.2776	0.0505	0.3747	0.0496	0.3842	0.0485	0.2261	0.0419	0.2999	0.0406	0.3148	0.0148	0.5241	0.0103	0.6588	0.0107	0.6480
ECO Tenure	-0.1691	0.2214	-0.1612	0.2442	-0.1673	0.2287	-0.1161	0.2365	-0.1111	0.2591	-0.1191	0.2269	-0.0515	0.3655	-0.0487	0.3916	-0.0469	0.4118
ECO Org Tenure	0.0106	0.8455	-0.0009	0.9865	-0.0028	0.9588	0.0075	0.8454	0.0007	0.9862	-0.0010	0.9793	0.0050	0.8243	-0.0002	0.9933	-0.0006	0.9805
Compliance Officer	1.2735 *	0.0174	1.3260 *	0.0134	1.2951 *	0.0163	0.8110 *	0.0328	0.8420 *	0.0272	0.8017 *	0.0359	0.4894 *	0.0259	0.5127 *	0.0197	0.5222 *	0.0183
KLD Dummy	-0.8364	0.1187	-0.9497 ‡	0.0779	-0.9463 ‡	0.0807	-0.7050 ‡	0.0673	-0.7726 *	0.0463	-0.7649 *	0.0493	-0.2881	0.1732	-0.3324	0.1171	-0.3440	0.1073
Total Articles	0.0048	0.3174	0.0050	0.2916	0.0054	0.2578	0.0016	0.6319	0.0018	0.5993	0.0022	0.5111	0.0031	0.1114	0.0032 ‡	0.0994	0.0032	0.1043
Prior KLD Strengths	0.0089	0.6975	0.0085	0.7111	0.0074	0.7487	-0.0007	0.9672	-0.0010	0.9506	-0.0024	0.8852	0.0095	0.3188	0.0094	0.3209	0.0095	0.3169
Prior KLD Concerns	0.0225	0.4002	0.0271	0.3165	0.0260	0.3389	0.0037	0.8476	0.0065	0.7374	0.0057	0.7669	0.0193 ‡	0.0802	0.0211 ‡	0.0579	0.0207 ‡	0.0646
Prior Ethics Transgressions	0.0053	0.5082	0.0043	0.5882	0.0044	0.5790	0.0066	0.2331	0.0060	0.2811	0.0062	0.2660	-0.0004	0.9095	-0.0008	0.8177	-0.0008	0.8059
Prior General Affect	1.0481 ***	<.0001	1.0385 ***	<.0001	1.0370 ***	<.0001												
Prior Positive Emotion							0.9691 ***	<.0001	0.9620 ***	<.0001	0.9568 ***	<.0001						
Prior Negative Emotion													1.0624 ***	<.0001	1.0501 ***	<.0001	1.0513 ***	<.0001
Absence of ethics event	-0.4448	0.3495	-0.3761	0.4291	-0.4038	0.3987	-0.5273	0.1185	-0.4855	0.1516	-0.5226	0.1239	0.0542	0.7819	0.0836	0.6694	0.0920	0.6403
Financial Support			-0.1827	0.5154	-0.2287	0.4702			-0.1130	0.5715	-0.1360	0.5449			-0.0699	0.5447	-0.0984	0.4503
TMT Support			0.4058 ‡	0.0730	0.4752 *	0.0481			0.2416	0.1328	0.3226 ‡	0.0586			0.1784 ‡	0.0550	0.1709 ‡	0.0829
Financial Support * Absence					0.1276	0.7747					0.0533	0.8662					0.0904	0.6224
TMT Support * Absence					-0.5089	0.3970					-0.6253	0.1433					0.0928	0.7071
r ²	0.71		0.72		0.72		0.69		0.69		0.69		0.63		0.64		0.64	
Adjusted r ²	0.68		0.68		0.68		0.65		0.65		0.65		0.59		0.60		0.59	
Δ r ²			0.00		0.00				0.00		0.00				0.00		0.00	
d.f.			2		2				2		2				2		2	
Observations	282		282		282		235		235		235		235		235		235	
‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001																		
Two-tailed tests for all control and hypothesized variables.																		

Figure 7: The Probability of Adopting the ECO Position (1990-2007)

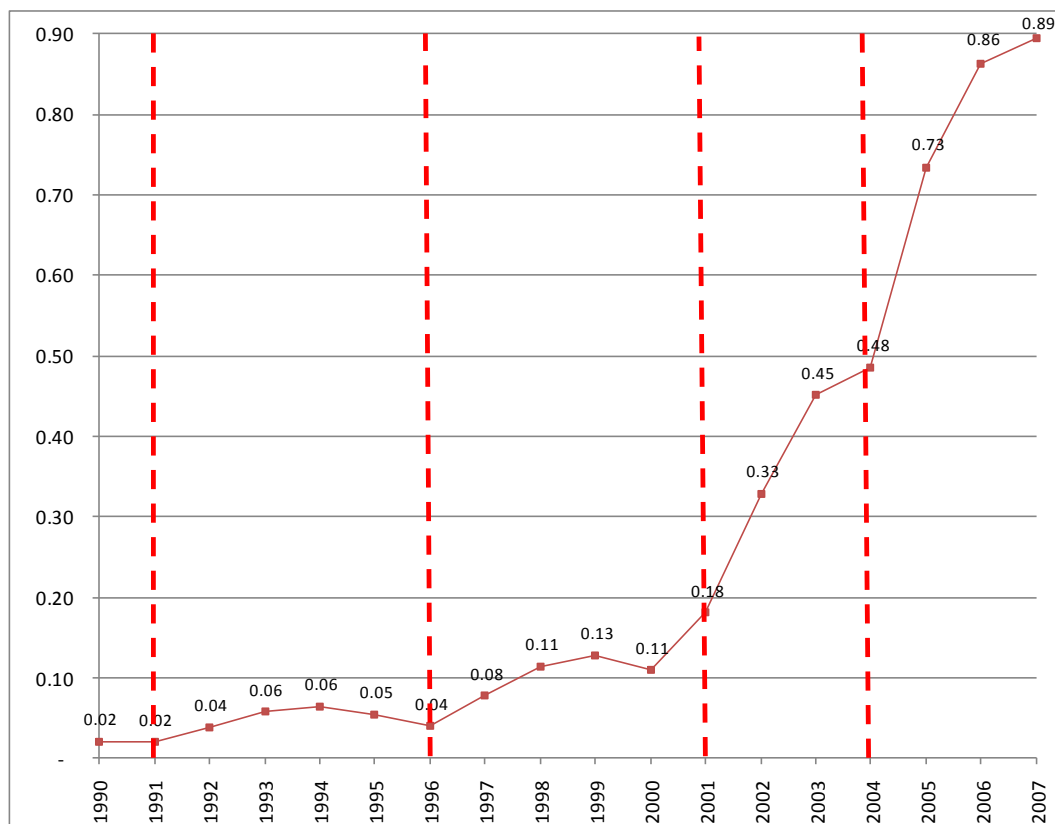


Figure 8: The Curvilinear Effects of Extent of ECO Implementation (Years 1-3) and Subsequent Ethics Transgressions (2005-2008)

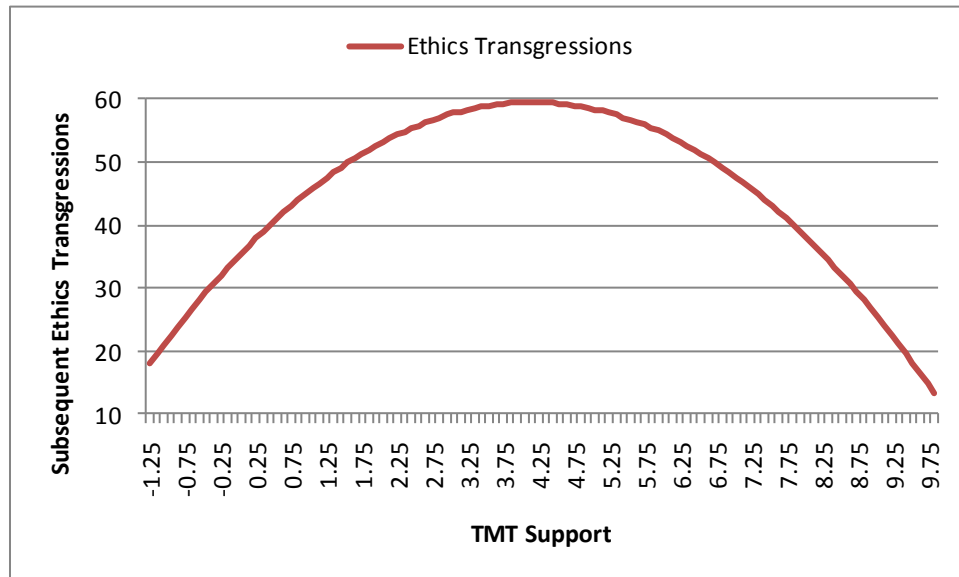
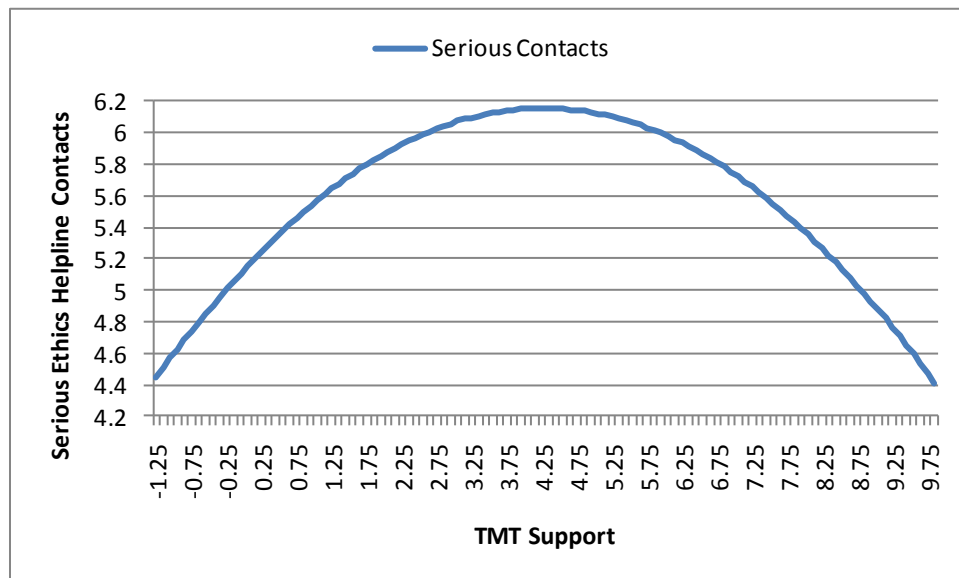


Figure 9: The Curvilinear Effects of ECO Implementation on Serious Helpline Contacts



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