THE CORRECTIVE ACTIONS ORGANIZATIONS PURSUE FOLLOWING MISCONDUCT: A REVIEW AND RESEARCH AGENDA

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Organizational misconduct has substantial effects on the well-being of a firm and its stakeholders. As this body of work has grown, organizational scholars have devoted considerable research attention toward understanding how firms can minimize the negative effects of misconduct through various corrective actions. Consequently, discrete research streams have formed around specific types of organizational misconduct and corrective actions, which has left the literature without a unifying theoretical model. We provide a conceptual synthesis and typology that aggregates disconnected concepts into the higher order constructs of organizational misconduct (executive dismissal, product recalls, organizational accounts, and policy changes) and corrective actions (fraud, product safety issues, employee mistreatment, and environmental violations). Using the theoretical tenets of stakeholder salience and managerial cognition, we offer insight and future research directions about managers’ decision-making processes following misconduct and why firms respond using accommodative versus defensive strategies.

Over the past 10 years, scholars have devoted significant research attention toward understanding how organizations manage the aftermath of misconduct (Pfarrer, Decelles, Smith, & Taylor, 2008), with an increasing focus on what organizations do to “right the ship” once misconduct has occurred. Given the prevalence and enormity of the effects of organizational misconduct, it is not surprising that research in a variety of disciplines, including management, accounting, finance, marketing, operations, and public relations, has examined the corrective actions organizations pursue following misconduct. Through this research, scholars are developing an increasingly fine-grained understanding of the effectiveness of various corrective actions following different types of misconduct.

Although researchers have amassed considerable knowledge on corrective actions in the past decade, several shortcomings in the literature necessitate a review. First, for the purpose of understanding when and how corrective actions mitigate the effects of misconduct, the focal concepts are underdeveloped. In their *Academy of Management Annals* review, Greve, Palmer, and Pozner (2010) defined misconduct with a focus on its antecedents and social construction. Their review furthered the field’s understanding of what misconduct is, factors that lead to it, and how it can be prevented. However, the literature still lacks a typology that delineates specific forms of organizational misconduct and their varying consequences. Capturing this is essential for

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Moreover, although the term “corrective action” is commonly used and understood in the vernacular sense, it is rarely defined in meaning or scope (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Coombs & Holladay, 2002; Skinner & Srinivasan, 2012). Thus, the literature is unclear about how managers can mitigate the effects of misconduct.

Second, scholarly works concerning various corrective actions have developed within separate conceptual silos, which diminish cohesion across disciplines. For instance, a large quantity of research on recalls, an important corrective action for product safety issues, exists within the operations literature (Chiarini, 2015; Tse & Tan, 2011). Similarly, research on managing stakeholder relationships through organizational accounts following misconduct largely appears in the communication and crisis-response literature (Coombs, 2007a). Even corrective actions central to the management domain, such as CEO dismissal and internal policy changes, belong to distinct research streams within the broader strategic management literature. Aside from a few impactful studies that bridge these disparate literatures (Zavyalova, Pfarrer, Reger, & Shapiro, 2012), little conceptual overlap exists to date.

Third, it is unclear what the literature has accomplished and where knowledge gaps remain given the lack of overarching perspective to effectively connect diverse findings from the interdisciplinary literature. The predominant view from research on corrective actions is that managers can achieve superior results for their firm by accommodating the needs and desires of stakeholders affected by misconduct (Coombs, 2007a; Dawar & Pillutla, 2000; Elsbach, 1994; Rowley, 1997; Zhang & Wiersema, 2009). However, research also indicates that managers frequently seek to defend their firm against the claims of affected stakeholders (Bundy, Shropshire, & Buchholtz, 2013; Elsbach & Kramer, 1996), which represents a divergence from the predominant view. This divergence illustrates that a proverbial “black box” exists in the literature, wherein insights from present research are limited about how managers make corrective action decisions and what they hope to accomplish with their actions. In practice, managers must make difficult decisions about the actions they will pursue following misconduct, and as they make those decisions, they must weigh not only how to repair relationships with stakeholders but also how to maintain firm performance and survival (Pfarrer et al., 2008). Such decisions are complex and difficult because the actions that accomplish those objectives are often unclear or conflicting. Extant literature offers some insights into how managers make these decisions, but large gaps still exist—specifically related to comprehensive, theory-driven explanations of when and why managers adopt an accommodative versus defensive posture.

These shortcomings represent obstacles for understanding how organizations manage the aftermath of misconduct and create hurdles for future development, cohesion, and consensus-building regarding research on corrective actions. Until these disparate concepts are connected and understood in the context of an overarching theoretical framework, developments will remain isolated in separate research streams. As a result, researchers will continue to lack a cohesive understanding of the broader literature’s accomplishments and where promising research opportunities remain.

In an effort to help resolve these problems, we provide a conceptual synthesis and typology that aggregates disconnected concepts into the higher order constructs of organizational misconduct and corrective actions. This synthesis allows us to develop a conceptual model that illustrates how these constructs relate to each other and where missing links exist within the literature—thereby enhancing the field’s understanding of the present literature. Following the conceptual synthesis, we use insights from this body of research to develop a theoretical framework that explores the forces underlying managers’ decisions about corrective actions. Our conceptual synthesis illustrates that managers have assorted objectives for their use of corrective actions and implement those actions in diverse ways. Therefore, it is not surprising that organizations facing similar pressures from stakeholders following similar types of misconduct often pursue very different corrective actions (Gangloff, Connelly, & Shook, 2016; Pfarrer et al., 2008). Accordingly, we build on these insights to develop a theoretical framework that explores how stakeholder salience (i.e., legitimacy, power, and urgency of stakeholders affected by misconduct) and managerial cognition (i.e., the knowledge structures that shape strategic decisions) together influence managers’ corrective action decision-making.

Ultimately, this review contributes to the literature by advancing a stakeholder theory–managerial cognition framework to better understand managers’ corrective action decision-making as well as the outcomes and effectiveness of such decision-making. Because of the often-disconnected scholarship on
corrective actions and lack of overarching framework in the extant literature, it is difficult to know “what we do not know” about the drivers and efficacy of corrective actions. Our review and framework uncover large gaps with respect to managerial decision-making on corrective actions. That is, (1) when managers choose to implement corrective actions, (2) why managers select certain corrective actions, and (3) how they assess the effectiveness of their action represent notable missing links in the literature, which require further research. To provide a starting point, we draw upon insights culled from our review from both established and recent work in stakeholder theory to provide a theoretical framework for understanding managers’ decision-making following misconduct. In doing so, we extend the current views on corrective actions to uncover knowledge gaps and fruitful opportunities for research.

Using a systematic search, we identified 214 articles on corrective actions in top journals from management and related fields. This extensive search of the literature includes articles that examine (1) why firms choose specific corrective actions, (2) the effectiveness of corrective actions, and (3) the consequences of misconduct on various stakeholder groups. Table 1 provides a quantitative summary of the articles we collected from journals in a range of disciplines.

We first provide a typology and review of organizational misconduct and corrective actions, highlighting insights for each corrective action about its implementation and outcomes. Next, we provide a conceptual model to highlight the structure of relationships currently uncovered in extant research. Following this, we advance a framework that not only identifies clear gaps in our current understanding of corrective action decision-making but also integrates research on stakeholder salience and the cognitive structures that managers use to interpret stakeholders’ claims to better understand managers’ post-misconduct decision-making. Finally, we use this framework to develop a clear road map for future research on corrective actions.

**ORGANIZATIONAL MISCONDUCT**

Organizational misconduct is an illegal, unethical, or socially irresponsible behavior performed by an organization that directly harms its stakeholders (Greve et al., 2010). Typically, behaviors that qualify as misconduct include actions that cause harm to stakeholders and are explicitly illegal, punishable by law (Braithwaite, 1989), or are unethical and deemed unacceptable according to societal norms (Sharpe, 1993). These actions have the potential to harm stakeholders physically, emotionally, and/or economically. Scholars have studied numerous types of misconduct and each one varies not only in terms of the specific harmful behavior performed by the organization but also in terms of the focal stakeholder group(s) affected. Acts of misconduct can, however, also harm the organization. Following

<table>
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<th>TABLE 1</th>
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<td><strong>Summary of Search Results</strong></td>
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<td>Journal</td>
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<td><strong>Management</strong></td>
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<td>Academy of Management Journal</td>
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<td>Academy of Management Review</td>
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<tr>
<td>Administrative Science Quarterly</td>
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<td>Business Ethics Quarterly</td>
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<td>Journal of Applied Psychology</td>
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<td>Journal of Management</td>
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<td>Journal of Management Studies</td>
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<td>Organization Science</td>
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<td>Strategic Management Journal</td>
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<td>Others</td>
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<td><strong>Accounting/Finance</strong></td>
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<td>Journal of Corporate Finance</td>
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<td>Journal of Finance</td>
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<td>The Accounting Review</td>
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<td>Journal of Accounting Research</td>
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<td>Journal of Accounting and Economics</td>
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<td><strong>Marketing</strong></td>
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<td>Journal of Marketing</td>
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<td>Journal of Marketing Research</td>
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<td>Journal of the Academy of Marketing Science</td>
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<td>Marketing Science</td>
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<td><strong>Operations</strong></td>
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<td>Journal of Operations Management</td>
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<td>Journal of Supply Chain Management</td>
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<td>Decision Sciences</td>
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<td>Production and Operations Management</td>
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<td><strong>Public Relations</strong></td>
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<td>Public Relations Review</td>
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<td>Corporate Communications</td>
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<td>Corporate Reputation Review</td>
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<tr>
<td>Journal of Public Relations Research</td>
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<tr>
<td>Journal of Communication Management</td>
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<tr>
<td>Other</td>
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<td><strong>Total</strong></td>
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discovery of misconduct, organizations can experience legitimacy loss, legal penalties, employee dissatisfaction, consumer boycotts, and stock price drops (Cline, Walkling, & Yore, 2018). Each of these effects on the firm could have important implications for performance and may even threaten firm survival (Karpoff, Lee, & Martin, 2008a).

Based on our review, we have developed a typology that aggregates four major types of organizational misconduct: fraud, product safety issues, employee mistreatment, and environmental violations. Each of these widely studied firm behaviors represents an illegal, unethical, or socially irresponsible act that directly harms stakeholders. By aggregating these currently disconnected concepts together under the higher order construct of organizational misconduct, we connect disparate research streams that share underlying similarities. Furthermore, we delineate each type of misconduct by key characteristics, including both the effects it has on perpetrating firms and on stakeholders, which serves to enhance our understanding of the corrective actions that organizations pursue following misconduct. We provide an overview of our organizational misconduct typology in Table 2.

### Fraud

Fraud refers to firm actions that deceive, embezzle, or cheat other stakeholders (Zahra, Priem, & Rasheed, 2005). Fraud covers a wide range of illegal and unethical behaviors that usually benefit the firm or its managers at the expense of other stakeholders. Three major forms of fraud exist—financial fraud, consumer fraud, and contract violations—each of which affects the perpetrating firm uniquely and has the potential to harm different stakeholders.

<table>
<thead>
<tr>
<th>Type of Misconduct</th>
<th>Definition</th>
<th>Firm Effects</th>
<th>Stakeholder Group(s) Affected</th>
<th>Focal Concepts</th>
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<tbody>
<tr>
<td>Fraud</td>
<td>Firm actions that deceive, embezzle, or cheat other stakeholders</td>
<td>Financial fraud: Legal and financial market penalties, increased cost of capital</td>
<td>Investors</td>
<td>Restatements, class-action lawsuits, options backdating</td>
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<td></td>
<td></td>
<td>Consumer fraud: Loss of legitimacy and consumer trust</td>
<td>Customers</td>
<td>False marketing, price manipulation</td>
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<td></td>
<td></td>
<td>Contract violations: Damage to interorganizational partner networks</td>
<td>Partners suppliers distributors</td>
<td>Contract disputes, transaction costs, damage current and future partnership opportunities</td>
</tr>
<tr>
<td>Product safety issues</td>
<td>Firms negligent or deliberate release of unsafe products into the marketplace</td>
<td>Operational (direct) costs, declining firm revenues, indirect costs</td>
<td>Customers and investors</td>
<td>Defective products, time to recall, hazard level, customer injuries, remediation strategy</td>
</tr>
<tr>
<td>Employee mistreatment</td>
<td>Firm actions that harm or has the potential to harm employees</td>
<td>Legal penalties, negative employment-related outcomes (reduced productivity, creativity, job satisfaction), decreases in firm performance and shareholder value</td>
<td>Employees and their families</td>
<td>Discrimination, harassment, unjustified layoffs, poor working conditions</td>
</tr>
<tr>
<td>Environmental violations</td>
<td>Firm actions that harm the natural world (i.e., physical environmental violations) and/or actions that harm broader society (i.e., social environmental violations)</td>
<td>Legal penalties, financial losses, reduced investments from salient shareholders groups, reputational penalties, consumer boycotts</td>
<td>Local community, natural environment, social discourse</td>
<td>Environmental crises, societal crises, corporate environmental sensitivity; scrutiny from investors, the media, and society</td>
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Financial fraud encompasses forms of financial malfeasance, such as misreporting of financial statements, securities manipulation, and options back-dating (Cumming, Danhauser, & Johan, 2015; Fich & Shivdasani, 2007). Investors are invariably the main victims of financial fraud. When news of financial fraud becomes public knowledge, it typically reduces the market value of the company’s stock (Davidson, Worrell, & Lee, 1994; Palmrose, Richardson, & Sholz, 2004) and, as a result, shareholder wealth. Bondholders and other creditors of the firm also bear the consequences of financial fraud. If ratings agencies reduce the firm’s credit rating following financial fraud, then bonds issued by the firm lose value, and bondholders suffer (Palmrose et al., 2004). In some cases, lenders may have provided capital that was secured by overvalued or nonexistent collateral or inflated cash flow projections. Not only does this make recovery of debt difficult but it may also result in total loss of principal.

After detection of financial fraud, perpetrating organizations typically experience market and legal penalties (Srinivasan, 2005). Financial markets lose confidence in the financial information provided by fraudulent firms and in the ability of managers to act with integrity, which can cause a drop in stock and bond prices (Gomulya & Mishina, 2017). Current investors may also take legal action to recoup losses (Shi, Connelly, & Sanders, 2015), and firms that commit financial fraud may experience an increased cost of capital (Hribar & Jenkins, 2004). When investors believe a firm’s managers might attempt to embezzle money or falsify financial information, it increases perceptions of risk (Connelly, Ketchen, Gangloff, & Shook, 2016). As a result, the firm may not be able to secure as favorable investment terms as it could otherwise.

Consumer fraud occurs when a firm deceives its customers, through false marketing or other means, about the nature of its products or services. Companies commit consumer fraud in multiple ways, including offering a product that does not perform as advertised, adding unreasonable charges to an initial estimate, or by concealing fees (Holtfreter, Van Slyke, & Blomberg, 2005). In each case, firms deceptively deprive customers of their property rights. Although consumer fraud is often associated with illegitimate firms whose purpose is to scam unwitting customers through identity theft or other means (McKnight, Choudhury, & Kacmar, 2002), mainstream companies have been the subjects of highly publicized consumer fraud cases in recent years. For example, in a recent notable case, Wells Fargo pressured customers to open unwanted accounts or opened accounts without their consent and then charged these customers with unanticipated fees.

Organizations that engage in consumer fraud experience notable consequences as well. Consumer fraud diminishes customer’s trust in the firm because using deceptive practices on customers violates implicit social contracts between firms and their customers (Grazioli & Jarvenpaa, 2000). As a result, customers become wary of engaging in further transactions with the organization, which can affect future firm performance. Consumer fraud also delegitimizes firms by violating norms of acceptable firm behavior toward customers (Kim, Ferrin, & Rao, 2008). Organizations that experience decreased legitimacy are likely to suffer from diminished stakeholder support and access to resources (Elbsbach, 2003). Furthermore, after the detection of consumer fraud, perpetrating organizations typically experience legal penalties and, if related to an operational failure, the cost of the fix.

Contract violations are another form of fraud wherein organizations, as a party to a contract, do not abide by the contract’s provisions (Janowicz-Panjaitan & Krishnan, 2009). Contract violations negatively affect interorganizational partners such as suppliers, distributors, and strategic alliance partners. Contracts are an essential component of interorganizational partnerships because they serve as protection against threats of opportunism (Mayer & Argyres, 2004). Therefore, a contract violation represents a meaningful breach of trust and generates transaction costs for the partner organization (Mesquita, 2007), which can come in the form of renegotiating the contract, monitoring the violating firm for future violations, absorbing the responsibilities of the partnership, or finding a new partner.

Violating a contract can damage a firm’s network of relationships with partners, suppliers, and distributors (Harmon, Kim, & Mayer, 2015). Once violated, such partners might pursue legal actions or withdraw from the partnership, which could—depending on the strategic importance of the relationship—harm the perpetrating firm (Bruyaka, Philippe, & Castañer, 2018; Mesquita, 2007). Furthermore, organizations that violate contracts may develop a reputation as an unreliable partner and, as a result, face difficulties securing future strategic partnerships (Sullivan, Haunschild, & Page, 2007). When firms that have previously violated contracts secure subsequent partnerships, it is likely that the new partner will demand greater contract specificity and heftier
punishments for violations. Therefore, contract violations can damage an organization’s current and future partnership opportunities and increase the costs associated with those opportunities.

Product Safety Issues

Product safety issues (also commonly referred to as product-harm crises) are well-publicized incidents where organizations negligently or deliberately release flawed or unsafe products into the marketplace (Dawar & Pillutla, 2000; van Heerde, Helsen, & Dekimpe, 2007). The consumer harm created by product safety issues can engender substantial consequences for organizational stakeholders (Cleeren, Dekimpe, & van Heerde, 2017). In developed countries, product safety issues remain under the government’s purview, which allows federal agencies, such as the United States’ Food and Drug Administration, to protect the public from safety threats (Wowak & Boone, 2015).

The product safety issue literature typically identifies consumers as the stakeholder group primarily affected, owing to the physical harm that results from product defects. The likelihood that product safety issues create consumer harm depends on the (1) hazard level and (2) how promptly firms remediate all defective products (Hora, Bapuji, & Roth, 2011; Ni, Flynn, & Jacobs, 2014). The hazard level refers to the potential of the product defect to physically harm consumers (Liu, Liu, & Luo, 2016), whereas “time to recall” captures the promptness of the remediation effort itself (Hora et al., 2011: 767). Whereas the direct relationship between hazard level and consumer harm is relatively straightforward, the time firms take to remediate harmful products depends on several factors (Eilert, Jayachandran, Kalaigianam, & Swartz, 2017; Ni & Huang, 2018). One factor that influences recall promptness is whether firms selected a proactive vs. passive (reactive) strategic response. Proactive responses shield consumers from physical harm, whereas passive responses are correlated with incidents of illness or injury (Chen, Ganesan, & Liu, 2009). Product safety issues, in addition to causing consumer harm, carry substantial financial consequences for stockholders (Chen & Nguyen, 2013; Liu, Shankar, & Yun, 2017). Indeed, findings point to performance declines and negative stock market returns (Davidson & Worrell, 1992); however, certain factors, such as firm attributes, industry, cultural orientation, and type of remediation strategy influence this likelihood (Ni et al., 2014; Zhao, Li, & Flynn, 2013).

In addition to stakeholders, product safety issues threaten the perpetrating firm and engender firm instability through three, interrelated costs (Kumar & Schmitz, 2011; Thirumalai & Sinha, 2011). First, organizations suffer large direct costs from supply chain– or operational-related defects, including business interruptions, inventory losses, product remediation, and logistics expenses (Kiani, Shirouysazd, Bafti, & Fouladgar, 2009). Empirical evidence from the supply chain literature suggests sourcing strategies (Steven, Dong, & Corsi, 2014), buyer–supplier relationships (Chao, Iravani, & Savaskan, 2009), product traceability (Epelbaum & Martinez, 2014; Wowak, Craighead, & Ketchen, 2016), and plant operations (Shah, Ball, & Netessine, 2017) are key operational considerations during product-harm crises.

Second, product safety issues negatively affect firm revenues through declining consumer sales. Firm revenues decrease owing to the focal product safety issue in addition to negative spillover effects that reduce sales from similarly branded products (Cleeren, Dekimpe, & Helsen, 2008; Lei, Dawar, & Lemminck, 2008). Indeed, nearly 55 percent of consumers indicate they are willing to change their buying preferences following a product safety concern (PR Newswire, 2007). Finally, product safety issues create consequences for perpetrating firms through large indirect expenses (Maruchend, Greis, Mena, & Cai, 2011). Product safety issues spread uncertainty in the marketplace and change buying patterns as consumers question organizations’ capacity for producing safe, high-quality products (Cleeren, van Heerde, & Dekimpe, 2013; van Heerde et al., 2007). The extent to which consumers penalize organizations, however, depends on several factors including firms’ pre-crisis levels of consumer loyalty (Cleeren et al., 2008), brand familiarity (Dawar & Lei, 2009), product quality (Zhao, Zhao, & Helsen, 2011), and firm reputation (Munyon, Jenkins, Crook, Edwards, & Harvey, in press). Overall, research from the marketing literature suggests organizations may incur substantial indirect costs from product-harm crises due to waning consumer confidence that harms firms’ intangible assets (Cleeren et al., 2017).

Employee Mistreatment

Employee mistreatment refers to actions taken by an organization or representative of an organization (e.g., manager) that harms or has the potential to harm employees. Employee mistreatment spans a wide variety of issues, including labor relation violations, unsafe working conditions, and sexual harassment. In addition to overt mistreatment, such as...
sexual harassment, employee mistreatment extends into subtler areas, such as abusive supervision or emotional harm due to nonphysical hostility (Mitchell & Ambrose, 2007; Tepper, 2000, 2007). Such concerns fall within both the legal and ethical realms.

Within the legal realm, the U.S. government, like governments in many other countries, has set up numerous agencies to provide employee protection, such as the Department of Labor (DOL) and the Equal Employment Opportunity Commission (EEOC). These organizations and their associated suborganizations (e.g., The Department of Occupational Safety and Health Administration) provide the legal backdrop for employee protection. Stipulations from these organizations address minimum wage and labor laws, workplace safety, workers’ compensation, family and medical leave, layoffs, and race- and sex-related conduct.

Beyond legal requirements, firms face a variety of societal pressures for employee treatment. Although firms may have once had relatively free reign with respect to their behavior and policies—as long as the minimum legal standard was met—there has been an increasing focus in the media and society on reducing emotional and nonphysical abuse among supervisors. For example, treating employees with respect, increasing employee-friendly workplace practices (e.g., flex time and fitness amenities), and having favorable leave policies are notable topics in the current business press. In 2015, for example, Amazon came under fire for their “bruising workplace,” which featured unreasonably high work standards and bare-minimum maternity leave policies. After receiving scrutiny from popular media outlets such as The New York Times, Amazon expanded their maternity policy to include 4 weeks of paid medical leave before delivery and 10 weeks of paid leave following delivery (Demmitt, 2015; Greenberg, 2015).

Both employees and shareholders experience consequences from employee mistreatment. Although employees are harmed directly by the mistreatment itself, the firm may also be directly or indirectly harmed. Legally, the consequences of such actions can include fines, fees, and sanctions from the DOL, civil lawsuits, and in some cases even large-scale class-action lawsuits. Walmart, for example, recently paid $151 million in damages to current and former employees as the result of a class-action lawsuit filed by its workers for unpaid overtime work violations (Morran, 2016). In addition to this fine, Walmart spent significant money and time fighting these claims—nearly 15 years in court and an estimated $36 million in legal fees.

In addition, both unethical (but legal) and illegal actions have a variety of extra-legal consequences. Firms with employee violations receive criticism and negative attention that can harm firm reputation and shareholder value (Eury, Kreiner, Treviño, & Gioia, 2018; Tepper, 2000). Furthermore, employee mistreatment and dissatisfaction are linked to reduced employee productivity (Yang, Caughlin, Gazica, Truxillo, & Spector, 2014), lower employee creativity (Liu, Liao, & Loi, 2012), reduced job satisfaction (Fitzgerald, Drasgow, Gelfand, & Magley, 1997), employee strikes (Davidson, Worrell, & Garrison, 1988), and increased employee turnover (Tepper, 2000; Zellars, Tepper, & Duffy, 2002)—all of which harm performance and shareholder value. Indeed, experts estimate that abusive supervision alone costs firms more than 20 billion annually in lost productivity, employee health-care costs, and absenteeism (Tepper, Duffy, Henle, & Lambert, 2006; Yu, Duffy, & Tepper, 2018). Thus, consequences that affect internal and external stakeholders plague firms with employee mistreatment issues.

Environmental Violations

Sustainability research highlights two types of environmental violations: actions taken by an organization that harm the natural world (i.e., physical environmental violations) and actions that harm broader society (i.e., social environmental violations). Such actions may be expressly illegal (e.g., emissions that violate the law) or be within the bounds of law, but perceived by many in society to be unethical (e.g., hydraulic fracturing). Environmental violations typically benefit the firm through cost savings or increased efficiency relative to legal or ethical alternatives. For example, dumping harmful waste byproducts into nonmandated areas may save firms expensive waste removal fees. Illegal environmental violations fall under the U.S. government’s Environmental Protection Agency (EPA) and include numerous types of actions ranging from noise pollution to illegal insecticide usage to ocean dumping and air pollution.

In addition to federal regulations, environmental policy and protection occurs at both the state and local levels and impacts firms in a wide variety of industries. Societal expectations for corporate environmental sensitivity and conduct have also grown exponentially in recent years. Not only does the popular press provide negative coverage of firm environmental actions that fall outside societal norms but also most shareholder activism requests are now centered on socially responsible practices (Grewal,
The spill affected employees and the surrounding release of more than 97,000 metric tons of methane gas. Company facility was responsible for the multimonth example, a recent leak at a Southern California Gas (2012; Griffith, Duncan, Riggan, & Pellom, 1989). For entire communities (Gan, Davies, Koehoorn, & Brauer, 2012). For example, a recent leak at a Southern California Gas Company facility was responsible for the multimonth release of more than 97,000 metric tons of methane gas. The spill affected employees and the surrounding community with short-term symptoms, including “nosebleeds and headaches” (Schlanger, 2016).

Beyond direct harm to the environment and stakeholders, environmental violations have a number of notable consequences for firms that commit them. First, illegal environmental acts, once discovered, are subject to a variety of legal consequences. For example, first-time negligent cases of water pollution may receive small fines ($2,500 to $25,000 per day) and/or up to a year of imprisonment for the responsible person. Knowing or willful violations, however, have stiffer penalties, including large fines (e.g., up to $50,000 per day) or longer terms of imprisonment (e.g., up to 3 years). Beyond “knowingly committed” violations, firms whose willful violations endanger lives can face even larger fines. Thus, illegal environmental violations can lead to large financial losses.

In addition to financial consequences levied by regulatory agencies, both illegal and legal environmental violations are subject to the scrutiny of investors, the media, and society as a whole. These consequences include reduced investments from shareholders and institutional investors (Flammer, 2013), reduced consumer purchase volume (Mainieri, Barnett, Valdero, Uniyan, & Oskamp, 1997; Pérez & Bosque, 2015), and firm reputation damage (Lii & Lee, 2012). Ultimately, such problems harm firm performance and have long-term financial consequences for firms (Karpoff, Lott, & Wehrly, 2005; Orlitzky, Schmidt, & Rynes, 2003).

CORRECTIVE ACTIONS

After misconduct, managers can pursue a range of corrective actions. We define corrective actions as behaviors performed by an organization intended to mitigate the negative effects of misconduct on the firm and its stakeholders and generate positive outcomes for the firm. Research in this area suggests that managers typically take action when stakeholders experience negative outcomes due to the misconduct or there is substantial concern that harm to stakeholders may occur in the future. Although the primary purpose of a corrective action is to reduce the negative effects of misconduct, some actions can generate positive ancillary outcomes such as learning, resilience, and goodwill with stakeholders (Elsbach & Sutton, 1992).

Based on our review of the literature, we have developed a typology that aggregates four key types of corrective actions: executive dismissal, product recalls, organizational accounts, and policy changes. Each of these widely studied responses to misconduct attempts to mitigate the negative effects of misconduct and has the potential to generate positive outcomes for the firm. Building on these delineations, we highlight the key characteristics of each corrective action, including the basic functions that each serves, as well as outline the theoretical frameworks and the major research trends and findings associated with each corrective action. We offer a summary of our corrective actions typology and findings in Table 3.

Our review of the corrective actions literature indicates that managers implement corrective actions to mitigate effects on stakeholders and the firm, and there is variance in the way they do so. Firms that address misconduct in a pro-stakeholder way pursue accommodative responses—meaning that the response directly addresses and engages stakeholder concerns over the misconduct. Such responses typically offer tangible solutions in response to the affected stakeholder group’s claims and needs. Extensive research has sought to understand stakeholders’ reactions to misconduct (Devers, Dewett, Mishina, & Beltsio, 2009; Greve et al., 2010) and how organizations can repair relationships with stakeholders (Dawar & Pillutla, 2000; Elsbach, 1994; Zhang & Wiersema, 2009). As such, this accommodative view represents a dominant perspective within the literature on corrective actions. Comparatively fewer studies indicate firms may also respond defensively—meaning that their actions serve to distance the firm from the wrongdoing in the eyes of stakeholders and limit the firm’s financial, reputational, and strategic losses (Dutton & Jackson, 1987; Elsbach & Kramer, 1996). Thus, our review of the literature pointed to accommodative and defensive actions as a meaningful distinction in corrective action implementation and we use this distinction to help organize our review of corrective actions.
TABLE 3
Typology of Corrective Actions Organizations Pursue Following Misconduct

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Executive Dismissal

When misconduct occurs, organizations often remove and replace the leaders responsible (Agrawal, Jaffe, & Karpoff, 1999; Hennes, Leone, & Miller, 2008). Strategic leaders of firms that engage in misconduct are more than twice as likely to lose their jobs compared with other executives (Arthaud-Day et al., 2006; Karpoff, Lee, & Martin, 2008b). Executive dismissal involves a two-step process of (1) electing to fire an executive and (2) choosing a successor, which allows firms to mitigate the effects of misconduct both by eliminating problematic leaders and by hiring new leaders (Connelly et al., 2016). Although CEOs are commonly the target of executive dismissal, other members of the top management team, including C-level executives and board members, are also frequently dismissed in the wake of misconduct (Marcel & Cowen, 2014; Pozner, 2008). Because executive dismissal involves taking action against managers, the decision-making authority to pursue this corrective action may lie within different organizational actors, including the CEO, the board of directors, or even the voting shareholders.

Researchers have used a range of theoretical perspectives to understand dismissal and successor selection decisions. The most common perspective is signaling theory, which scholars have largely used
to explore stakeholder reactions to executive dismissals (Zhang & Wiersema, 2009). Broadly, researchers argue that removing a high-level executive from the firm signals to stakeholders the firm’s underlying intentions to rehabilitate, which can effectively reduce stakeholder uncertainty about the firm’s future (Arthaud-Day et al., 2006). Conversely, scapegoating an executive—by either dismissing a lower level executive or dismissing an upper level executive and replacing them with an insider—signals to stakeholders that the firm is committed to the status quo and produces negative reactions (Arthaud-Day et al., 2006; Gangloff et al., 2016). In addition to signaling theory, scholars have recently applied notable perspectives that contribute to our understanding of the more nuanced phenomena that exist during succession events. For instance, according to implicit leadership theory and theory on trust repair, boards may select successors whom they perceive to have positive personality traits that serve to elevate the ethical climate in the firm and produce positive stakeholder reactions (Gomulya, Wong, Ormiston, & Boeker, 2017). Furthermore, Gomulya and Mishina (2017) use screening theory to explain shifts in how stakeholders evaluate information provided by firms that have committed misconduct before and after a dismissal. Their findings indicate that stakeholders remain wary of information provided by the firm until the board replaces the incumbent CEO. Taken together, the literature demonstrates that executive dismissal may be accommodative or defensive in nature—meaning that firms may dismiss executives to accommodate stakeholder concerns and correct leadership problems or to defend firm and managerial interests by scapegoating an executive.

**Accommodative responses.** The decision to retain or fire leaders following an instance of misconduct serves as an important signal to stakeholders about the organization’s intentions for change. In an effort to repair damaged relationships with stakeholders, organizations may attempt to signal their desire for change by dismissing the managers responsible (Kryzanowski & Zhang, 2013). Furthermore, Marcel and Cowen (2014) found that following misconduct, firms appear to “clean house” on the board of directors by dismissing low-quality directors. Doing so serves to reaffirm stakeholders’ perceptions of organizational legitimacy by allowing the board to acknowledge past shortcomings and signal a willingness to remedy governance weaknesses. Conversely, retaining leaders that engaged in or allowed misconduct signals apathy and commitment to the status quo. Not surprisingly, investors tend to react favorably to misconduct-related dismissal (Gangloff et al., 2016) and reestablish trust with organizations after executive dismissal occurs (Gomulya & Mishina, 2017).

Selecting a replacement following a dismissal provides organizations with an additional opportunity to signal their intentions to stakeholders. Extant research suggests that a variety of CEO successor characteristics signal change intentions to stakeholders affected by misconduct. Gomulya and Boeker (2014), for example, found that following a dismissal related to financial fraud, investors react positively to CEO successors with prior CEO experience, turnaround experience, or an elite education background. They theorized that each of these qualities signals that the firm is serious about correcting problems because it is willing to pay a premium for a quality successor. Similarly, Connelly et al. (2016) examined selection of insider versus outsider CEO successors and its effect on shareholder reaction following accusations of organizational misconduct. Their findings indicate that selecting an outsider CEO signals commitment to change, whereas selecting an insider CEO signals commitment to the status quo, thereby producing favorable and unfavorable investor responses, respectively.

Moving beyond signaling, research has begun to explore whether organizations pursue executive dismissal to generate substantive changes that prevent further misconduct. This suggest that in addition to signaling their intentions to stakeholders, substantively correcting internal problems may be a motivating factor in firms’ successor selection decisions. For instance, Gomulya et al. (2017), using an implicit leadership perspective, found that directors tend to select CEO successor candidates who have the appearance of integrity because they want a CEO who will make honest and ethical decisions. Furthermore, Hazarika, Karpoff, and Nahata (2012) found that earnings management decreases following a forced CEO dismissal, suggesting the dismissal resulted in meaningful changes to firms’ financial operations.

**Defensive responses.** Organizations may also use succession defensively by scapegoating an executive. When organizations use scapegoating, the succession event is mainly a ritual designed to placate stakeholders (Gamson & Scotch, 1964; Rowe, Cannella, Rankin, & Gorman, 2005) without introducing real change to address underlying leadership problems that may have precipitated misconduct (Boeker, 1992). Thus, scapegoating is a
Product Recalls

Product recalls mitigate the adverse impact of product safety issues or consumer fraud resulting from unethical or illicit organizational misconduct (Wowak & Boone, 2015). Specifically, recalls are the remediation of consumer goods following the discovery of product defects, safety concerns, or government violations by a focal organization or federal agency (Thirumalai & Sinha, 2011). Early research often viewed recalls as uniform events, whereas more recent studies unpack the importance and effects of different recall classifications (Wowak & Boone, 2015). This line of inquiry produced four unique recall types: precise, overkill, cascading, and incomplete (Ketchen, Wowak, & Craighead, 2014). Precise recalls occur when firms have identified the cause of the product safety issue and subsequently retrieved all defective products. In contrast, overkill and cascading recalls occur when organizations struggle to define the scope of the product-harm. During incomplete recalls, firms cannot readily identify the product safety issue, which leads to failed remediation efforts where managers are unable to recall all the defective products or tainted goods. An additional recall type follows incidents of consumer fraud, such as Volkswagen’s 2015 recall for its “clean diesel” vehicles in violation of the EPA’s Clean Air Act. Recalls from consumer fraud are unique because the corrective action is not associated with a product safety concern but rather a deliberate attempt to circumvent government regulation.

Although the product recall literature has a practical foundation, recently researchers have made notable theoretical gains by incorporating key perspectives, including transaction cost economics (Steven et al., 2014), resource-based view (Epelbaum & Martinez, 2014), signaling theory (Ni et al., 2014), and organizational learning (Rhee, 2009). Transaction cost economics has helped researchers explain the relationship between supply chain sourcing strategies, such as outsourcing and offshoring, and firms’ product quality failures. For example, Steven et al. (2014) concluded outsourcing has a more robust effect on product quality failures compared with offshoring. The authors found outsourcing led to more product failures because when firms formed relationships with global partners, their supply chain complexity and transactional risk increased from growing monitoring and coordination costs. The transactional risks associated with outsourcing and global partnerships, in particular, have opened a conversation in supply chain research regarding the importance of quality management on preventing product safety issues (Das, 2011; Marucheck et al., 2011).

The resource-based view represents another notable theoretical perspective within the product recall literature, which has been used to explore the impact of food traceability systems on firm performance (Epelbaum & Martinez, 2014). Food traceability systems and quality controls are key resources because they assist firms in locating and remediating defective products during the product recall process (Alfaro & Rábade, 2009; Wang, Li, & O’Brien, 2009). By conceptualizing food traceability systems as a resource, Epelbaum and Martinez (2014) found that managers can enhance their organization’s performance by introducing firm-specific technological innovations that are rare and difficult for competitors to imitate. Although much of resource-based theory has focused exclusively on the importance of firms obtaining resource endowments that are valuable, rare, inimitable, and non-substitutable, Ketchen et al. (2014) advanced this position by introducing resource orchestration theory to the product recall literature. Their findings suggest that in addition to having valuable resources, how managers actively use their resource portfolio
during recalls is an essential, but previously missing aspect of the product recall literature.

Product recall researchers have also used signaling theory to show that stakeholders interpret firms’ strategic responses as a signal of their capacity to remediate defective products safely and effectively (Wowak & Boone, 2015). Ni et al. (2014) used signaling theory to explain why stock market penalties were harsher for firms that offered consumers a monetary refund compared with firms that offered product replacements or repairs. The authors found choosing a monetary response strategy such as refunds signaled to investors that the potential of consumer injury was so likely that the firm was required to leverage the greatest possible incentive to remediate the faulty product. Comparatively, investors interpreted product repairs or replacements more positively because these nonmonetary remediation strategies signaled to investors that the firm was much more confident about their containment efforts and believed the likelihood of consumer harm was low. Extant research suggests the stock market interprets product recalls as a signal of operational failure, which raises shareholder concerns about systemic quality problems and, perhaps, subsequent financial losses (Chen et al., 2009). Taken together, signaling theory provides a robust framework that helps explain why investors may hold different preferences regarding the level of proactivity firms use in their strategic responses (Zhao et al., 2013).

Finally, organizational learning theory conceptuallyizes product recalls as not only a corrective action but also an opportunity to reduce future operational failures (Hall & Johnson-Hall, 2017; Kalaiginanam, Kushwaha, & Eilert, 2013). Product recalls are trigger events that highlight structural, procedural, or design failures, which stimulate firms to change their internal procedures or consider alternative solutions (Maslach, 2016). Although organizational learning theory views failure as a powerful, motivating factor, not all product safety problems lead to organizational learning (Thirumalai & Sinha, 2011). Rhee et al. have identified key contextual factors that influence whether firms learn from their product safety problems (Haunschild & Rhee, 2004; Rhee & Kim, 2015). Following product safety crises, firms attempt to lessen the adverse effects by implementing responses that mitigate stakeholder harm (Wowak & Boone, 2015). The product recall literature suggests firm responses fall on a continuum that ranges from accommodative to defensive (Liu et al., 2017). Accommodative responses refer to proactive recalls that prioritize consumer safety, whereas defensive responses entail reactive recalls that causes physical harm to unsuspecting patrons (Chen et al., 2009).

**Accommodative responses.** Liable firms show concern for consumer welfare by initiating voluntary recalls, which use internal resources to remove any product that contains a functional defect, poses a consumer health risk, or violates federal regulation (Haunschild & Rhee, 2004). Thus, voluntary recalls are firm-initiated not government-mandated (Laufer & Coombs, 2006). After initiating a voluntary recall, organizations can further intensify their response by leveraging a more accommodative position through unambiguous support. Unambiguous support occurs when firms assume complete responsibility of the safety concern, apologize to appropriate stakeholder groups, and remediate all potentially harmful products (Dawar & Pillutla, 2000). Johnson & Johnson’s 1982 decisive recall of its tainted Tylenol capsules represents an example of unambiguous support because the firm accepted responsibility, communicated diligently with customers, and implemented a comprehensive remediation strategy that emphasized public safety. Findings in the recall literature suggest consumers and the media react positively to accommodative responses that blend proper marketing and media management with technical changes that directly address the origin of the safety issue (van Heerde et al., 2007; Zavyalova et al., 2012).

**Defensive responses.** By contrast, firms sometimes act defensively by attempting to conceal potentially hazardous products from salient stakeholders. For example, involuntary or mandatory recalls arise when federal agencies order the physical removal of defective products to ensure consumer safety (Siomkos & Kurzbard, 1994). Involuntary recalls require governmental intervention because the firm that should have initiated the recall negated their responsibility to mitigate consumer harm (Haunschild & Rhee, 2004). The most extreme version of such actions—unambiguous stonewalling—occurs when firms deny all responsibility for the product safety issue, refrain from communicating with stakeholders, and offer no product remediation (Dawar & Pillutla, 2000). For example, in Peanut Corporation of America’s 2009 recall, the firm denied responsibility, evaded communication, and refused to remediate contaminated goods that sickened more than 700 consumers and resulted in nine deaths (Canavan, 2013). As this case shows, denial is an especially dangerous response because it leaves unsuspecting consumers vulnerable to physical harm and recall delays (Claeys, Cauberghe, & Pandelaere, 2016).
Organizational Accounts

Firms also use organizational accounts as a corrective action to attenuate negative impacts of organizational misconduct (Ma & Zhan, 2016). Organizational accounts refer to firm-level communications where managers attempt to mitigate the severity of the misconduct by offering stakeholders various explanations (Elsbach, 1994; Schlenker, 1980). Within this context, accounts are the image-protecting responses where firms either explain their role in the wrongdoing or deny their culpability (McDonald, Sparks, & Glendon, 2010). Research on organizational accounts includes an extensive body of theoretical frameworks and empirical models that capture how organizations manage strategic relationships in the wake of firm wrongdoing (Hutton, 1999; Schultz, Kleinnijenhuis, Oegema, Utz, & Van Atteveldt, 2012). The organizational accounts literature typically uses impression management (Garrett, Bradford, Meyers, & Becker, 1989), situational crisis communication theory (Coombs, 1995), image restoration theory (Benoit, 1997), or attribution theory (Coombs, 2007b) to address how salient stakeholder groups perceive various forms of communication post-misconduct. Each of these theories points to firms using organizational accounts to promote a favorable image with its stakeholders and/or, depending on the organization’s response, to obfuscate the severity of its transgression.

A growing segment of research about organizational accounts stresses what firms say and do following organizational misconduct (Coombs, 2006: 242). Transgressing organizations typically frame their communications using organizational account tactics known in the literature as crisis-response strategies (Ma & Zhan, 2016). Organizations use crisis-response strategies to communicate with a diverse array of stakeholders affected by their misconduct, including investors, supply chain partners, employees, consumers, and community associates (Coombs, 2007a, 2007b). Crisis-response strategies allow organizations to protect, and potentially restore, their reputation and legitimacy post-wrongdoing (Desai, 2011; Utz, Schultz, & Glocka, 2013). Such response strategies can also be accommodative or defensive in nature, with some firms choosing to proactively communicate and address stakeholder concerns and others choosing to defend or distance themselves from the misconduct (Huang, Lin, & Su, 2005; Lamin & Zaheer, 2012).

Accommodative responses. Accommodative responses include various strategies from the organizational accounts literature where firms take responsibility for their actions and/or assist victims who suffered from their misconduct (Coombs, 2006). Accommodative responses assist firms in rebuilding or “redressing” their reputation post-wrongdoing by dealing directly with the misconduct (Coombs, 2007a: 143). Hence, accommodative strategies are helpful because they allow organizations to reframe their actions by engaging in positive activities that prioritize victims to counteract the negatives from previous wrongdoing (Coombs, 2014). Prior research indicates that stakeholders, in general, and consumers, specifically, prefer accommodative response strategies because of the firms’ acceptance of responsibility (Claeys et al., 2016).

Prior research associates accommodative responses with five organizational strategies: (a) apology, (b) repentance, (c) sympathy, (d) compensation, and (e) rectification (Holladay, 2010). Apology indicates organizations have accepted complete responsibility for the wrongdoing, and repentance shows managers also sought forgiveness from stakeholders (cf. Verhoeven, Van Hoof, Ter Keurs, & Van Vuuren, 2012). Although apology and repentance are effective response strategies, accepting complete responsibility for the wrongdoing opens unsuspecting firms to costly legal proceedings and financial loss (Kim, Avery, & Lariscy, 2009; Patel & Reinsch, 2003). To avoid such circumstances, transgressing organizations may offer stakeholders sympathy, compensation, or rectification instead. Sympathetic responses allow firms to express concern for negatively affected stakeholders as well as regret or remorse for their wrongdoing (Coombs & Holladay, 2008). In addition to offering sympathy, compensation strategies allow organizations to provide financial reimbursement or tangible aid to victims affected by the misconduct (Coombs, 2007a). For instance, organizations may provide affected parties direct monetary payment or offer living necessities post-wrongdoing (i.e., housing and food; Coombs & Holladay, 2009). Finally, transgressing firms may attempt to rectify the situation by implementing safeguards to prevent such misconduct from occurring again (Vlad, Sallot, & Reber, 2006). Even though transgressing organizations cannot undo their wrongs, rectification shows that firms are dedicated to preventing future misconduct without apologizing.

Defensive responses. Whereas accommodative response strategies deal directly with the misconduct, defensive strategies create separation between transgressing organizations and the actual misconduct through denial (Coombs, Holladay, & Claeys, 2016). Defensive response strategies are
relatively inexpensive compared with accommodative tactics and allow transgressing firms to distance themselves from any wrongdoing (Claeys, Cauberghé, & Vyncke, 2010). Although researchers from the organizational accounts literature recommend firms use defensive responses when outside entities are alleging untrue information, transgressing organizations, more recently, have been denying responsibility when, in fact, they are culpable (Coombs, 2014). Although defensive response strategies appear attractive, in general, consumers and the public at large react negatively to public denials where firms do not disclose incriminating information (Claeys et al., 2016).

Defensive responses include four organizational strategies: (a) attack the accuser, (b) denial, (c) blaming, and (d) suffering (Holladay, 2010). Attack the accuser occurs when transgressing organizations challenge the entity alleging that wrongdoing occurred (Coombs, 2006). For example, organizations may confront the entity that alleges the misconduct occurred by seeking legal remedies, including potential civil action in hopes of defending their reputation (Coombs, 2007a). Organizations employ denial by refuting any wrongdoing transpired (Benoit, 1997). Denial attempts to release organizations from responsibility by severing any association with the wrongdoing. By contrast, blame arises when transgressing organizations transfer responsibility by blaming an outside party (Coombs, 2014; Park, Park, & Ramanujam, 2018). For instance, when facing misconduct claims, retailers may blame their supplier, thereby transferring responsibility to a different supply chain entity. Finally, organizations use suffering by portraying themselves as an unfair victim instead of the perpetrator of the misconduct (Holladay, 2010). Transgressing organizations may use this response in an attempt to garner sympathetic responses.

Policy Changes

Policy changes are internal strategic and organizational changes that organizations pursue in the wake of misconduct. Organizational strategies, structures, and rules can incentivize or discourage illegal or unethical behavior that harms stakeholders (Harris & Bromiley, 2007; Shi et al., 2015). In an attempt to prevent the recurrence of misconduct in their organization, managers or the board of directors may adjust policies to diminish the incentive for misconduct or to discourage further bad behavior. Examples of internal policy changes include amending the code of conduct (Gillespie & Dietz, 2009; Perez-Batres, Doh, Miller, & Písani, 2012), altering reward structures (Harris & Bromiley, 2007), adjusting operational procedures (Chao et al., 2009), and introducing ethics training programs (Weaver, Treviño, & Cochran, 1999).

Historically, policy study researchers have used three perspectives to study policy change: the advocacy coalition framework, the multiple streams approach, and punctuated-equilibrium theory (John, 2003). A common goal among these referent theories is to reveal the underlying causal processes that drive policy change (Real-Dato, 2009). Although the specific drivers of policy change still garner debate in the literature, a compelling organizational event—such as corporate misconduct—represents a key causal mechanism for change (Capello, 2009).

The advocacy coalition framework proposes that the likelihood of policy change depends on the openness of the political institution and the level of agreement among policy participants that a major change is needed (Sabatier & Weible, 2007). Following misconduct, core beliefs about the need for a policy change may be shared widely among managers, employees, and outside stakeholders, which can influence policy change decisions (Pfarrer et al., 2008; Weaver et al., 1999). When a strong coalition of internal and external stakeholders support a change, major policy revisions are likely to take place (Sabatier, 1998). Second, the multiple streams approach suggests that policy adoption results from the coupling of three distinct streams—the problem, the policy, and politics. Policy windows open when these streams are aligned, which garners attention from policy makers and provides an opportunity for change (Kingdon, 1995). The multiple streams approach highlights a temporal aspect to policy change by indicating that policy makers must swiftly capitalize on an open policy window because these fleeting opportunities only exist following a highly visible event, such as misconduct, for a limited time period (Zahariadis, 2008). Third, Baumgartner and Jones (1991) developed punctuated-equilibrium theory to policymaking, which is characterized by long periods of incremental of policy adjustments (i.e., equilibrium) and short periods of major policy change (i.e., disequilibrium). The principal thesis of punctuated equilibrium is that an inherent friction exists between the influx of new information and the prevailing opposition to change that exists within organizations (Jones & Baumgartner, 2012). Because revelations of organizational misconduct are likely to create disequilibrium, such allegations may
alleviate resistance to change within organizations and allow for substantial policy changes (Weick & Quinn, 1999).

Whereas policy study scholars have historically used the aforementioned theoretical lenses in sociopolitical contexts (Capano & Howlett, 2009; John, 2003), organizational researchers have recently expanded the theoretical boundaries of the policy change literature to explore the nexus of policy and misconduct (Harris & Bromiley, 2007; Ridge, 2012). Many of the studies in this area use alternative theoretical perspectives to identify policy flaws that cause misconduct by incentivizing illegal, unethical, and socially irresponsible behavior (Shi et al., 2015; Zhang, Bartol, Smith, Pfarrer, & Khanin, 2008). Others use signaling theory to explore the informational cues that managers may attempt to provide stakeholders through their use of policy changes. As with other corrective actions, prior research shows that organizations may pursue policy changes in an accommodative or defensive manner. Accommodative responses include making substantive changes to policy that prevent reoccurrence of misconduct or signal the organization’s intentions for change, whereas defensive responses involve making easily decoupled or reversible changes.

**Accommodative responses.** Policy changes provide managers with an opportunity to make substantive changes to the internal strategies, structures, or rules that incentivized or allowed for misconduct. Policies and other organizational structures, specifically those that create intense competition or strain, can incentivize managers to engage in misconduct (Vaughan, 1999). Thus, scholars have explored how policies influence the likelihood of misconduct based on strain theory– and tournament theory– driven mechanisms (Shi et al., 2015; Simpson & Piquero, 2002; Zhang et al., 2008). Although strain theory was originally devised to explain why the lower classes of society engaged in higher rates of illegal activity (Merton, 1938), considerable evidence shows that gaps between goals and actual outcomes may create strain that leads to corporate misconduct (Agnew, Piquero, & Cullen, 2009; Harris & Bromiley, 2007; O’Connor, Priem, Coombs, & Gilley, 2006). For example, Zhang et al. (2008) found that organizations are more likely to engage in financial fraud when CEO stock options are out-of-the-money, which introduces a gap between actual and potential CEO earnings. However, intra-organizational competition, or tournaments, may also lead to misconduct (Ridge, 2012). For example, Shi et al. (2015) found that when a large gap exists between CEOs and other executives in relative pay, firms are more likely to experience financial fraud than when the gap is small. They argue this occurs because relatively underpaid executives are tempted to resort to unethical behavior to cover up problems or exaggerate performance potential to help position themselves for promotion. Taken together, research in this area indicates that organizations can prevent further misconduct by removing or adjusting policies that create incentives for it because of strain or intense internal competition.

Managers can also introduce new policies that discourage further misconduct (Gillespie & Dietz, 2009). Studies in this area have examined perpetrating organizations’ introduction of new operating standards, governance mechanisms, ethics training programs, and codes of conduct to generate meaningful change. In terms of new operating standards, Chatterji and Toffel (2010) found that after receiving a poor report from an environmental ratings agency, organizations implemented emission standards that improved their environmental performance. In addition, research indicates that organizations tend to implement stricter governance standards to increase monitoring and deter unwanted behavior (Farber, 2005). They may do so by increasing the number of outside directors, increasing the size and scope of the audit committee, or using external accreditors and auditors. However, findings about the effectiveness of these governance mechanisms are still somewhat mixed (Ege, 2014; Peasnell, Pope, & Young, 2005). Furthermore, in an effort to shift organizational culture, managers may also implement an ethics training program or ethics-focused code of conduct to educate employees about acceptable and unacceptable behavior (Gillespie & Dietz, 2009; Weaver et al., 1999).

Organizations can use policy changes as signals to stakeholders that help rebuild trust and reestablish legitimacy following an instance of misconduct. Policies related to the implementation of whistleblowing procedures, support of industry-wide regulation, and ceding decision-making authority to stakeholders each signal commitment to substantive change in the organization. Organizations can signal their commitment to preventing further misconduct by establishing procedures and rewards for employee whistleblowing (Mesmer-Magnus & Viswesvaran, 2005). Implementation of such policies indicates to stakeholders that the organization intends to expose and eliminate the misconduct-related behavior (Near & Miceli, 1995). Organizations might also push for legislation that would impose penalties for further misconduct (Schweitzer, Hershey, & Bradlow, 2006; Slovic,
1993). In doing so, the organization signals to stakeholders that it supports governmental oversight and punishment. However, organizations can also simply yield control to affected stakeholder groups voluntarily, thereby allowing the external stakeholders to perform oversight and levy punishments as they see fit (Nakayachi & Watabe, 2005). Such voluntary actions tend to reestablish stakeholder trust more effectively than government-imposed oversight and punishments because they signal a voluntary commitment to meeting stakeholder demands.

**Defensive responses.** Managers may also use policy changes defensively by implementing easily decoupled or reversible strategies, structures, and rules (Bromley & Powell, 2012). These policy changes act as *false signals* of change because managers do not intend to provide the support that the policy needs to have an effect. Thus, these policy changes provide the appearance of conformity with stakeholders’ expectations while also making it easy to insulate the organization from actual substantive changes (Weaver et al., 1999). For instance, a policy change would be considered more defensive if it is engaged in a way that makes the policy easily reversed or even more so if the policy is announced without actions taken to implement the policy. Researchers commonly measure policy decoupling exposure because of the difficulties associated with assessing managers’ intentions when using archival data (Crilly, Zollo, & Hansen, 2012; Maclean & Behnam, 2010). Despite this limitation, scholars have accurately predicted defensive policy changes by measuring managers’ use of specific language cues in policy announcements (Fiss & Zajac, 2006). Westphal and Zajac (1998) provide evidence that symbolic corporate governance changes, although enacted to enhance organizational legitimacy, have the broader effect of deterring future and more substantive governance reforms. Indeed, research has demonstrated that a range of stakeholder groups, including investors, customers, and the public, in general appear willing to trust and restore legitimacy to organizations because of such symbolic gestures (Ashforth & Gibbs, 1990; Elsbach, 2003; Shi & Connelly, 2018; Westphal & Zajac, 2001). However, organizations often recidivate because they did not make substantive changes to prevent further misconduct (Maclean & Behnam, 2010; Maclean, Litzky, & Holderness, 2015). Thus, if policy changes are enacted but easily decoupled, or proposed without action, these responses are likely more defensive in nature.

**CORRECTIVE ACTION OUTCOMES**

Integrating research from the succession, organizational accounts, policy change, and product recall literatures provides insight into the unique outcomes of corrective actions. Primary outcomes encompass firm performance and stakeholder reactions, whereas secondary outcomes encompass ancillary firm outcomes such as legitimacy restoration and trust.

**Primary Outcomes**

Extant research from the succession, organizational accounts, policy change, and product recall literatures suggests stakeholders largely react positively when firms introduce corrective actions from these fields of study. Specifically, prior research on succession events following misconduct suggests that investors may react positively to actions such as dismissal (Helfat & Bailey, 2005). In particular, CEOs may be fired as “scapegoats” to pacify investors or they may be fired to signal genuine strategic change as evidenced by either an inside successor or outside successor, respectively. This research suggests equipollence in strategies, such that both scapegoating the CEO and using the succession event to signal strategic change is likely to result in positive investor reactions (Gangloff et al., 2016).

Research on policy changes, similarly, suggests that implementing strategic changes post-misconduct may garner positive stakeholder reactions. Stakeholders often react positively to policy changes that introduce socially responsible or ethical business practices. Transgressing organizations tend to leverage socially responsible policies and communiques to restore legitimacy with salient stakeholder groups and enhance firm performance (Arvidsson, 2010). Indeed, organizations can improve performance by tying their policy changes to stakeholders’ preferences and implementing social actions that align with the corporation’s strategic goals (Michelon, Boesso, & Kumar, 2013). Like the policy literature, research on organizational accounts emphasizes the importance of targeting salient stakeholder groups post-misconduct with well-positioned crisis management strategies. The organizational accounts literature suggests that firms can use multipronged strategies that target multiple stakeholder groups (e.g., customers, shareholders, communities, capital providers, and employees) to generate positive stock price reactions (Chakravarthy, Dehaan, & Raigopal, 2014).

Unlike other literature streams, product recall studies show investors typically have negative
reactions to formal product recall announcements (Wowak & Boone, 2015). Shareholders may react negatively to recall announcements because they represent an operational failure, which investors are likely learning about for the first time (Ni et al., 2014). Given the expediency required by governmental agencies, shareholders are often unaware of the product defect until firms issue a formal recall.

As the literature on corrective actions has advanced, emerging research suggests that scholars are considering key intervening or moderating factors that influence the interrelationships within the misconduct literature. For example, empirical research on organizational accounts suggests delivery medium and tenor are important factors that shape firm outcomes (Coombs & Holladay, 2009). Specifically, researchers have found that when CEOs accept responsibility for misconduct, investors react more positively to video press releases than traditional text releases. Conversely, the opposite is true when CEOs deny responsibility and make external attributions: traditional text releases garner more positive investor reactions than video releases (Elliott, Hodge, & Sedor, 2012). The policy change literature has similarly identified key intervening factors that influence the relationship between organizations’ use of socially responsible initiatives and performance. For example, existing research has identified firm reputation, innovativeness, and competitive advantage as mediating factors that influence the association between socially responsible practices and organizational performance (Bocquet, Le Bas, Mothe, & Poussing, 2017; Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015). Likewise, product recall researchers continue to advance the literature’s understanding of primary performance outcomes by showing that market reactions depend on key characteristics of the recall and attributes of the recalling firm (Liu et al., 2017). Factors such as industry context, CEO attributes, recall severity, and capital structure influenced how salient stakeholder groups responded to firms’ formal product recall announcements (Cleeren et al., 2017; Wowak & Boone, 2015). Overall, prior research shows that primary outcomes depend on the type of misconduct as well as key contextual factors.

Secondary Outcomes

Beyond traditional performance metrics, corrective actions have a variety of secondary outcomes—many of which produce positive, intra-organizational benefits (Ulmer, Sellnow, & Seeger, 2010). Research on succession suggests that firms may engage in meaningful strategic changes that positively shape the firm (cf. Ferrin, Cooper, Dirks, & Kim, 2018). Theories from the corporate decision-making literature suggest succession events allow for necessary strategic changes (Lant, Milliken, & Batra, 1992) and, moreover, may open the door for the board to hire a CEO that better aligns with their strategic vision (Westphal & Fredrickson, 2001).

The succession research mirrors extant research from the policy change literature, which suggests that damaging events may offer firms an opportunity for positive strategic and organizational change. Using institutional theory, research shows positive outcomes may develop at the firm level through microlevel processes that emerge from shared employee perceptions (cf. Chun, Shin, Choi, & Kim, 2013). From a policy perspective, firms can thrive post-misconduct and build organizational resiliency by introducing strategically implemented practices aimed at developing employees’ core abilities (Lengnick-Hall, Beck, & Lengnick-Hall, 2011).

Building on the notion that corrective actions generate positive intraorganizational benefits, an emerging body of research on organizational accounts suggests that negative events may offer positive opportunities for renewal and development (Ulmer, Seeger, & Sellnow, 2007; Veil, Sellnow, & Heald, 2011). “Discourse of renewal” is an emerging framework that leverages the tenets from chaos theory to describe how firms become stronger corporations following a negative organizational event (Seeger & Griffin-Padgett, 2010: 127). The organizational accounts and policy change literatures show corrective actions may actually strengthen relationships between transgressing firms and salient stakeholder groups by improving trust, satisfaction, commitment, and power balances between these parties (Smith, 2012; Xu, 2018).

In addition to organizational development and renewal, the product recall literature suggests that the decision to remediate defective goods or services provides firms with an opportunity to learn from their misconduct (Thirumalai & Sinha, 2011). Using organizational learning theory, empirical evidence suggests firms’ learning depends on important elements of the recall including volition (voluntary vs. involuntary recalls), magnitude, and hazard level (Bae & Benítez-Silva, 2011; Haunschmidt & Rhee, 2004; Rhee & Kim, 2015). Prior research suggests firms were more likely to learn from large-scale, voluntary product recalls that posed a significant hazard to consumers compared with small-scale,
involuntary recalls that had a lower risk of harm (Bae & Benítez-Silva, 2011; Kalaignanam et al., 2013).

Finally, research across a variety of literatures points to the ability of corrective actions to affect firm reputation. Research on executive dismissal suggests that succession events following wrongdoing may allow firms to hire a CEO that signals the seriousness of their image restoration efforts (Gillespie & Dietz, 2009). Those successors who have prior executive and turnaround experience or elite educational backgrounds were all likely to aid the firm’s reputation (Gomulya & Boeker, 2014). From a product recall standpoint, firm reputation is a key organizational factor that influences consumer and market reactions to defective goods (Haunschild & Rhee, 2006; Kim, 2014). A curvilinear relationship exists between firm reputation and organizational learning where companies with high- and low-level reputations were most likely to reduce their product defect rate (Rhee, 2009). Research on organizational accounts echoes the importance of examining firm reputation with recent research suggesting well-positioned strategies may not only repair but also improve salient stakeholder perceptions of transgressing firms (Ulmer et al., 2010). Similarly, from a policy viewpoint, organizational changes to internal codes and procedures serve as key tools for improving corporate reputations especially after the firm’s reputation has been threatened (Wright & Rwabizambuga, 2006). In sum, research from diverse literature streams show that corrective actions may benefit corporations by providing impactful organizational changes, including improvements to resiliency, development, and learning (Reierson, Sellnow, & Ulmer, 2009; Wan & Yiu, 2009; Xu, 2018).

A THEORETICAL FRAMEWORK OF CORRECTIVE ACTION DECISION-MAKING

Based on our synthesis of the diverse literatures on misconduct and corrective actions, we developed the conceptual model in Figure 1. Within this model, we illustrate findings from the present literature using solid lines and notable missing links within the literature using dashed lines. In findings from the present literature, we depict research concerning the consequences of organizational misconduct on the left side of the model. As discussed in the aforementioned organizational misconduct review and typology, four basic types of misconduct exist, and each of these types of misconduct harm stakeholders and have consequences for the organizations that perpetrate them. The right side of the model portrays the corrective actions literature, which provides numerous insights about the four different actions firms tend to implement following various types of misconduct and the achieved outcomes.

Synthesizing these research streams also allowed us to identify several shortcomings in the present literature, which are evident in Figure 1. In particular, the missing links in the conceptual model point to two major problems. First, we know relatively little about corrective action decision-making—why managers choose certain corrective actions and why they choose to implement them in either an accommodative or defensive manner represent notable missing links within the literature. The vast majority of research examines and promotes only one side of that continuum—namely, accommodative responses to affected stakeholders’ needs and desires—but does not explain why managers choose to defend against or ignore stakeholder claims and what objectives they seek to accomplish in doing so. Second, although the literature emphasizes many notable outcomes of corrective actions related to stakeholder reactions, previous research has not examined outcomes from the managerial perspective. Yet, doing so is essential for understanding how managers evaluate the effectiveness of corrective actions. Accordingly, we advance a theory-driven framework to enhance our understanding of the complex decisions managers face following misconduct and to understand how managers assess the effectiveness of their actions.

The Objectives of Accommodative versus Defensive Responses

To develop a better understanding of managers’ corrective action decision-making and their assessment of corrective action effectiveness, we parse down research findings into five fundamental objectives that research suggests managers typically seek to accomplish following misconduct. Three of these objectives speak to accommodative...
implementation (i.e., atone, resolve, and signal) and two speak to defensive implementation (i.e., conserve and distract).

Although each of these objectives represents a distinct motivation for managers’ corrective action decisions, some overlap exists between objectives. Specifically, certain objectives share similarities in terms of the outcomes that they tend to produce; however, each accomplishes these outcomes through different mechanisms, which we discuss in the following paragraphs. Furthermore, in practice, managers often have multiple objectives when they undertake corrective actions. For example, following a product safety issue, managers often attempt to atone for the harm caused to customers and resolve the operational problem that caused the safety issue (Cleeren et al., 2013; Zavyalova et al., 2012). Thus, managerial objectives are also interrelated in terms of their application.

**Accommodative objectives.** Accommodative objectives seek to address stakeholder claims and alleviate their concerns in a substantive way. When managers adopt accommodative objectives, they are interested in restoring relationships with stakeholders; therefore, the outcomes that interest managers following accommodative actions are often related to eliciting positive stakeholder reactions. Depending on the type of misconduct and stakeholder group harmed, outcomes such as market reactions, employee morale, or perceptions of legitimacy and trust are indicative of effectiveness. Accommodative objectives include atonement, resolving the root problem, and signaling intentions to stakeholders.

First, when addressing the claims of stakeholders affected by misconduct, managers may seek to atone by offering explanations, apologies, and/or penance as a remedy for the harm (Gillespie, Dietz, & Lockey, 2014). In doing so, managers can earn goodwill with stakeholder groups and restore the organization’s legitimacy and trustworthiness, which serve as indicators of effectiveness for atonement (Hearit, 1994). For example, in their case study of Severn Trent Water, a British utility company, Gillespie...
et al. (2014) noted that the firm explained that failures in internal processes were to blame for the wrongdoing and followed this explanation with a full apology. Supporting their actions, research on organizational accounts suggests that apologies play a vital role in addressing stakeholder concerns (Coombs & Holladay, 2012; Hearit, 1994; Patel & Reinsch, 2003).

In addition to explanations and apologies, firms often try to atone through penance. Severn Trent Water, for example, following their apology, offered to reduce customer bills for the next 2 years as “a gesture of penance,” and later agreed to spend £20 million on internal improvements and customer reimbursements (Gillespie et al., 2014: 14). Management and operations research suggests that such “substantive” penance helps restore trust and goes beyond the benefits conferred by apologies alone (Bachman, Gillespie, & Priem, 2015; Bottom, Gibson, Daniels, & Murnighan, 2002; Lado, Dant, & Tekleab, 2008; Ren & Gray, 2009).

Second, managers frequently attempt to resolve the root internal problem responsible for the harmful behavior. If stakeholders believe that the root problem is an individual or a group within the organization, their dissatisfaction often leads to managers or the board of directors dismissing the individuals who were responsible for the misconduct (Arthaud-Day et al., 2006; Gangloff et al., 2016). These dismissals can range from employees all the way to board members themselves (Arthaud-Day et al., 2006; Marcel & Cowen, 2014) and are driven by a variety of factors, including media attention (Wiersema & Zhang, 2013), characteristics of the individual (Leone & Liu, 2010), and type of misconduct (Aharony, Liu, & Yawson, 2015). Indeed, research in accounting suggests that founder CEOs are less likely to be dismissed than nonfounder CEOs following accounting irregularities (Leone & Liu, 2010) and recent research in finance suggests that firm responses differ based on the nature of the misconduct, such that certain types of lawsuits result in different likelihoods of CEO and director dismissal. For example, Aharony et al. (2015) found that intellectual property lawsuits led to a higher likelihood of outside director departures, whereas contractual lawsuits lead to a higher likelihood of inside director and CEO dismissal. Personnel changes such as these serve to restore damaged relationships with stakeholders and elicit positive market reactions, which serves as an indicator of effectiveness when managers seek to resolve the problem (Gomulya & Boeker, 2014; Zhang & Wiersema, 2009).

When the root internal problem is strategy or structure, managers often try to resolve the problem through adjusting internal policies and procedures (Bertels, Cody, & Pek, 2014). Researchers across organizational disciplines have examined how managers can adjust policies, processes, and structures to accommodate stakeholders’ demands for change. In the management and finance/accounting domains, scholars have studied managers’ use of policy changes following instances of misconduct. These studies have examined policy changes such as implementing organizational controls and governance mechanisms (Ege, 2014; Murillo-Luna, Garcés-Ayerbe, & Rivera-Torres, 2008; Weibel, Den Hartog, Gillespie, Searle, Six, & Skinner, 2015), amending the code of conduct (Gillespie & Dietz, 2009), altering reward structures (Harris & Bromiley, 2007), and introducing ethics training programs (Weaver et al., 1999). Furthermore, operations researchers suggest that adjustments to operational policies and procedures are a means of accommodating consumers’ demands for change following product safety problems (Chao et al., 2009; Zavyalova et al., 2012).

Third, managers often attempt to signal their intentions and plans for implementing future changes, but cannot do so immediately. Doing so is particularly useful when affected stakeholder groups call for urgent action and managers believe that they will use their power to punish the firm. Therefore, managers often signal that they are accommodating salient stakeholder claims, which can help avoid retaliation (Kirmani & Rao, 2000; Zhang & Wiersema, 2009). For example, research on succession following fraud finds that investors respond positively when firms clearly signal strategic change by dismissing the CEO following wrongdoing and negatively otherwise (Gangloff et al., 2016). In addition, although salient stakeholder claims typically have urgency (i.e., call for immediate action), managers cannot always implement large-scale corrective actions quickly (Hannan & Freeman, 1984; Lorsch, 1986). When they cannot take immediate actions, managers can assuage stakeholder concerns by using signals (Bergh, Connelly, Ketchen, & Shannon, 2014).

**Defensive objectives.** Defensive objectives use symbolic actions that allow managers to avoid accommodating stakeholder claims and protect their own or the firm’s interests. Managers generally attempt to accomplish two basic objectives when they assume a defensive position—conserving resources and distracting stakeholders. When managers adopt these objectives, their goal is to protect themselves...
or firm resources while giving the appearance of accommodating stakeholder claims. Therefore, the outcomes that are important to managers’ assessment of effectiveness following defensive actions are related to managerial and firm goals.

First, managers may attempt to conserve resources by limiting costs incurred when responding to stakeholder claims. The potential costs of responding to stakeholder claims can have a substantial taxing effect on a wide range of firm resources (Durand, Hawn, & Ioannou, 2017; Pozner, 2008). Therefore, it is not surprising that managers often attempt to delay corrective actions or use less expensive alternatives to the actions demanded by stakeholder groups (Bromley & Powell, 2012; Chen et al., 2009). Research from organizational accounts indicates managers commonly use symbolic actions, such as apologies or marketing campaigns, to appease stakeholders and avoid costlier actions (Coombs & Holladay, 2008, 2009). Supporting this, management and operations research demonstrates that managers may attempt to prevent or delay recalls to avoid their immense cost (Chao et al., 2009; Chen et al., 2009).

Managers may also attempt to avoid losing non-economic strategic resources or preserve their own job security. For example, stakeholder groups affected by any type of misconduct commonly call for dismissal of the responsible executives, which is a costly corrective action not only in terms of the monetary cost but also in terms of the lost human capital (Buchholtz, Ribbens, & Houle, 2003; Cao, Maruping, & Takeuchi, 2006; Harris & Helfat, 1997). Therefore, when replacing the executives responsible for misconduct would be exceptionally costly or difficult, the board of directors may seek to avoid dismissing them, and instead pursue an alternative corrective action or scapegoat a different person (Connelly, Tihanyi, Ketchen, Carnes, & Ferrier, 2017; Gangloff et al., 2016). In addition, managers may avoid actions that give affected stakeholder groups greater power to impose their claims. For instance, managers may avoid apologizing because, at times, apologies are a legally admissible acknowledgement of guilt (Fuoli, van de Weijer, & Paradis, 2017; Tyler, 1997).

Second, managers may seek to distract stakeholders to restore the firm’s image, reputation, or legitimacy without making substantive changes. Doing so is effective from the manager’s point of view when they can restore stakeholder relationships without making substantive changes. Managers can distract by shifting blame to an external party, implementing easily decoupled changes, or by using propaganda. When managers seek to shift blame, they may attempt to avoid responsibility for the misconduct by holding others responsible (Cho & Gower, 2006; Schwarz, 2012). For example, operations research indicates that managers may try to shift the blame to other firms including their supply chain partners (Park et al., 2018). Similarly, research from the crisis-response literature shows managers also shift or avoid blame through denial, attacking the stakeholders’ claim, or portraying the firm as a victim (An & Gower, 2009; Coombs, 2007a). These actions serve to restore the firm’s image by obfuscating either who is to blame for the misconduct or the amount of stakeholder harm.

When implementing easily decoupled actions, managers project the appearance of accommodating salient stakeholder claims by using false signals of change (Bromley & Powell, 2012). It can be difficult for affected stakeholders to observe firms’ internal practices and monitor whether managers implement proposed changes (Christmann & Taylor, 2001). Under such conditions, managers can deceive stakeholders about whether they are actually enforcing policies (Maclean & Behnam, 2010), which can aid legitimacy and trust with affected stakeholders while still pursuing alternative interests (Crilly et al., 2012).

Managers may also attempt to distract stakeholders through propaganda, which serves to refocus stakeholder attention on positive aspects of the firm (Zavyalova et al., 2012). In this approach, managers might call attention to the firms’ good deeds and charitable giving or perform highly publicized stunts to earn goodwill with stakeholders. For example, shortly after a product safety issue with their toys, FAO Schwarz announced that they would host the “first ever Play-A-Thon™ ... by offering them the chance to raise money for the charity of their choice” (Business Wire, 2001). Such symbolic actions do not address stakeholder concerns in a substantive way but serve to distract stakeholders’ attention or shift stakeholders’ negative perception of the firm.

Salience of Stakeholders Affected by Misconduct and Managerial Responsiveness

Defining five fundamental objectives provides insight about what managers intend to accomplish with a corrective action, yet the literature lacks a clear understanding of when managers are responsive to stakeholders following misconduct. In this section, we
explore how misconduct affects stakeholder salience, which influences managers’ responsiveness to their claims. Following misconduct, managers must assess the effects that their firm’s misconduct has had on stakeholders to decide whether they should respond to their claims. Unlike traditional stakeholder issues, wherein stakeholder or issue salience is related to enduring characteristics of the stakeholder group (Mitchell, Agle, & Wood, 1997), the salience of stakeholders following misconduct is related to the effects of the misconduct itself. Thus, we draw on insights from stakeholder theory to explain how the effects of misconduct influence managers’ perceptions of stakeholder salience and, as a result, their responsiveness to stakeholder claims.

The theory of stakeholder identification developed by Mitchell et al. (1997) describes salience as the degree to which managers are attentive and prioritize a stakeholder. Stakeholder salience increases with critical attributes as perceived by managers, including the legitimacy of the stakeholder’s relationship and their claim on the firm, the stakeholder’s power to force the firm to comply with their claim, and the urgency of the stakeholder’s claim (Mitchell et al., 1997). When a stakeholder holds multiple or higher levels of critical attributes, their salience increases, making managers not only more aware of the stakeholder’s claims but also more responsive to them (Agle, Mitchell, & Sonnenfeld, 1999; David, Bloom, & Hillman, 2007; Eesley & Lenox, 2006). Stakeholder salience, therefore, is a critical mechanism for understanding how harm caused to stakeholders influences whether managers will respond to their claim. In the following paragraphs, we describe how misconduct influences these attributes.

First, based on a general sense of justice and fairness, managers tend to perceive the claims of those harmed by the firm as legitimate (Phillips, 2003). Legitimacy indicates the appropriateness of a stakeholder’s claims within a system of norms, values, and beliefs (Mitchell et al., 1997). The principle that those who harm others should change their behavior and/or face penalties for their transgressions is a common tenant within legal systems and widely accepted codes of ethical conduct (Jones, Felps, & Bigley, 2007). Therefore, after experiencing harm caused by an organization’s misconduct, stakeholders can make legitimate claims that the organization should take action to correct its behavior and/or face penalties for its misdeeds.

Second, stakeholder’s power to influence the firm through legal and social mechanisms also tends to increase following misconduct (Murphy, Shrievs, & Tibbs, 2009). Power is the extent to which stakeholders have or can gain access to means that allow them to force an organization to do something that it would not otherwise do (Mitchell et al., 1997). As a result of the harm done to them, affected stakeholders are often able to impose legal penalties on the firm through individual lawsuits, class-action lawsuits, or fines from governing agencies. For example, in 2011, employees of Verizon Wireless secured a $20 million settlement from the company because of an employee mistreatment class-action lawsuit for a discriminatory attendance policy (EEOC, 2011). Consequently, Verizon adjusted its attendance policy to prevent further allegations of employee discrimination (Neil, 2011).

Although stakeholders affected by misconduct regularly use legal channels to gain access to power, misconduct sometimes falls outside the scope of legality and within the realm of ethics or social responsibility (Hahn & Albert, 2017). In such situations, affected stakeholders, or those acting on their behalf, may not be able to pursue legal remedies and instead must use social mechanisms, such as boycotts and media campaigns, to express their power (Klein, Smith, & John, 2004). Indeed, research on social movements suggests that stakeholders influence over firm actions that fall outside societal norms is growing (Davis & Thompson, 1994; King, Bentele, & Soule, 2007; King & Soule, 2007). For instance, in 2009, Greenpeace led a successful consumer boycott against Kimberly-Clark, who was logging the Boreal Forest in Canada to produce tissue paper. In response to the boycott, Kimberly-Clark changed its wood pulp harvesting policies to protect established ecosystems (Neff, 2014). Thus, Greenpeace influenced Kimberly-Clark to change its policy by threatening the firm’s revenues and market share.

Third, when stakeholders experience harm due to organizational misconduct, they often demand an immediate remedy to the situation. Urgency is the degree to which stakeholder claims require immediate action (Mitchell et al., 1997). Research on firm responses to misconduct generally indicate that stakeholders harmed by an organization’s behavior prefer that the organization promptly cease the harmful behavior and make changes to prevent further harm. For example, following revelations of financial fraud, research indicates that investors strongly prefer an immediate change in leadership to an interim appointment (Connelly et al., 2017). Moreover, research on product safety issues shows that taking too long to issue a recall has substantial
effects on consumers’ negative perceptions of the firm (Souiden & Pons, 2009).

Overall, stakeholder theory suggests that when managers perceive affected stakeholders possess high levels of all three critical attributes, they tend to be responsive. Accordingly, when stakeholders exhibit high levels of all three critical attributes (i.e., legitimacy, urgency, and power), managers have a mandate to give priority to the claims of that stakeholder over the claims of other stakeholders and managerial issues (Mitchell et al., 1997). For example, although managers are often focused on financial stakeholders, if a faulty product injures consumers, they are likely to perceive the harmed stakeholders as the more salient group following misconduct. Moreover, the content of specific claims made by salient stakeholders serves to guide managers with respect to the action that is most appropriate for addressing the claim.

Managerial Cognition and Corrective Action Decision-making

Although Mitchell et al. (1997) theory of stakeholder identification helps explain how the harm caused to stakeholders by misconduct influences managerial responsiveness to their claims, it does not fully explain why managers adopt specific accommodative or defensive objectives for their response. The extant literature provides numerous theoretical arguments and empirical findings that indicate that accommodating stakeholder claims produces positive stakeholder responses (Coombs, 2007a, 2007b; Zhang & Wiersema, 2009). Nonetheless, our review and abundant recent examples indicate that managers often do not accommodate stakeholders but rather seek to defend against their claims (Canavan, 2013; Connelly et al., 2016; Gangloff et al., 2016; Shi & Connelly, 2018; Titus, Parker, & Bass, 2018). When managers adopt defensive objectives, they aim to distance the firm from the misconduct and protect their own or their firm’s interests (Dutton & Jackson, 1987; Elsbach & Kramer, 1996). Yet, the present literature lacks a comprehensive theory-driven explanation of why managers adopt accommodative versus defensive objectives for their corrective actions.

To further connect missing links in the literature surrounding corrective action decision-making, we integrate research on managerial cognition, specifically the cognitive structures that influence managers’ assessment and interpretation of stakeholder claims (Bundy et al., 2013; Durand et al., 2017; Mitchell, Weaver, Agle, Bailey, & Carlson, 2016). Although recent research examines how cognitive processes influence managers’ general interpretation of stakeholder issues, we extend this work to incorporate key insights about how managers interpret stakeholder claims following misconduct and select corrective actions.

In determining how to respond to stakeholder claims, managers must assess whether stakeholder claims are aligned (i.e., supporting, reinforcing, or confirming) or conflicting (i.e., challenging or threatening) with their own and their firm’s interest. In other words, when managers perceive that stakeholder salience is high and that a claim is deserving of response, they must consider not only how their response might address the stakeholder’s claim but also how it will affect a range of other factors that are important to themselves, the firm, and other stakeholders. Drawing on Bundy et al. (2013) strategic cognition view of managers’ interpretation of stakeholder issues, we suggest that when a claim is aligned with the firm’s interests, managers will be more likely to accommodate. Conversely, when a claim conflicts with those interests, managers are more likely to adopt a defensive stance.

Strategic cognition refers to the cognitive structures that managers use to process stakeholder claims in relation to their firm’s interests when making decisions about potential strategies or tactics (Narayanan, Zane, & Kammerer, 2011). Consistent with the strategic cognition view (Bundy et al., 2013), we suggest that managers use the cognitive structures of organizational identity and strategic frame to assess whether stakeholder claims are aligned or conflicting with their firm’s values and goals. However, the strategic cognition view does not address how managers interpret claims in relation to their own interests, which prior research suggests can influence managerial actions. For example, following misconduct, managers may choose to scapegoat another actor in the firm to protect their own job security. Therefore, we include in the strategic cognition view how managerial self-interest and, more objectively, the firm’s interests may influence managers’ interpretation of stakeholder claims.

Managerial cognition includes the cognitive structures of organizational identity and strategic frame, which managers use to assess stakeholder claims in relation to the firm’s interests, as well as self-interest, which plays a role in how managers assess claims in relation to their own interests. Organizational identity reflects the distinctive and enduring core values and beliefs that define the firm in
the minds of its managers (Bundy et al., 2013). Decisions motivated by organizational identity follow an expressive logic, where the action reflects the firm’s identity to external constituents (Bundy et al., 2013; Polletta & Jasper, 2001). Thus, when interpreting a stakeholder claim, managers evaluate whether the claim is consistent or conflicting with the firm’s core values because they want subsequent actions to express the values that they believe their firm represents.

Similarly, managers’ strategic frames define their perceptions of the organization’s goals and help them assess what claims align with accomplishing those goals (Bundy et al., 2013; Polletta & Jasper, 2001). As opposed to organizational identity, a manager’s strategic frame facilitates information interpretation through an instrumental logic, which is predicated on a rational pursuit of firm objectives (Dutton & Jackson, 1987; Thomas, Clark, & Gioia, 1993). Thus, managers rely on strategic frames to interpret stakeholder claims following misconduct as either consistent or conflicting with their pursuit of organizational goals. Using this instrumental logic, managers may evaluate the costs and benefits of accommodating a claim to determine whether it is consistent with firm goals. A cost-benefit analysis involves estimating the expected gains derived from mobilizing or expending limited firm resources minus the estimated costs of using them (Durand et al., 2017). The gains in this equation may be any of the corrective action outcomes identified previously, such as firm performance, market reaction, or repairing relationships with stakeholders to restore trust and legitimacy. Costs, however, include the immediate and future resource losses or opportunity costs associated with the selected course of action. These costs encompass the loss of physical, human, and organizational resources as well as the social costs of prioritizing a particular stakeholder group’s claim over another’s. For a claim to be consistent with the firm’s goals and worth accommodating, managers must perceive that the resulting course of action will have a net benefit for the firm.

Ultimately, managerial cognition influences how managers perceive and process stakeholder claims. Although stakeholder salience increases the likelihood that managers will respond to specific stakeholders, we also suggest that the way in which they choose to respond—accommodatively or defensively—is a product of whether the stakeholders’ claim is consistent or conflicting with their own or their firm’s interests. If managers perceive that a claim is consistent with those interests, then they will likely adopt accommodative objectives. Conversely, when a claim conflicts with those interests, managers are more likely to defend against the claim. Accordingly, whether managers choose to respond to a particular stakeholder depends on their salience; whether they choose to do so in an accommodative or defensive way depends on the fit between the stakeholder’s claim and the interests of the firm.

Overall, this discussion helps clarify not only how managers select objectives for their corrective actions but also how managers and stakeholders evaluate the outcomes of corrective actions. Outcomes for stakeholders are largely dependent on whether the firm chooses to accommodate their claim and, as a result, stakeholder groups are likely to respond positively when their claim is accommodated. Managers’ evaluations of outcomes, however, are more complex and depend on whether or not the selected corrective actions accomplish their intended objectives. Thus, although the literature by and large focuses on stakeholder outcomes, managerial outcomes may or may not be met by accommodating stakeholder claims and we know little above the efficacy of corrective actions from an internal perspective. When managers adopt accommodative objectives for stakeholder claims, managers might consider restoration of trust, legitimacy, or reputation as indicative of effectiveness. However, when managerial cognitions conflict with stakeholders’ claims and they adopt defensive objectives, they may disregard such outcomes and instead focus on outcomes associated with the interests they are attempting to defend. For example, if conserving resources is a primary objective, then a successful outcome might be to protect the financial bottom line (e.g., net income). As such, managers may implement corrective actions that serve to protect their firm’s interests in lieu of those that serve to increase stakeholder-driven indicators of effectiveness (e.g., trust, legitimacy, reputation, stock market reaction, and short-term performance).

In sum, this framework suggests that stakeholder salience and managerial cognition influence corrective action decision-making following misconduct. Responsiveness to stakeholder claims is dependent on stakeholder salience (i.e., legitimacy, power, and urgency following the misconduct). Managerial cognition about whether a claim aligns or conflicts with their own or the firm’s interests determines whether managers will adopt accommodative versus defensive objectives. Subsequently, those objectives shape the corrective action(s) that managers pursue and how they implement them. In terms
of corrective action efficacy, stakeholder perceptions are largely influenced by whether the firm accommodated their claim; whereas efficacy from the managers’ perspective may be achieved through either accommodative or defensive actions, but as a product of the outcomes of those actions fulfilling their objectives.

DISCUSSION AND FUTURE RESEARCH AGENDA

The prevalence of corporate misconduct gives rise to numerous corrective actions intended to resolve or alleviate its consequences. Firms undertake dismissals, product recalls, organizational accounts, and policy changes in the hopes of correcting the harm caused by misconduct. As such, a notable but disconnected body of research spanning multiple fields has developed around corrective actions following misconduct. Accordingly, the purpose of this review is to synthesize these disconnected areas to better understand current insights and where future research may be fruitful.

The conceptual synthesis and theoretical framework offered previously bring together an interdisciplinary literature on corrective actions and identify numerous gaps that require additional research. Foremost, our review exposes that notable missing links exist in the literature surrounding corrective action decision-making. To explicate decision-making following misconduct, we took the initial steps of defining managerial objectives from the literature and advancing a stakeholder theory–managerial cognition framework. To visually highlight clear paths for future work, the conceptual model provided in Figure 1 maps the insights advanced within our stakeholder theory–managerial cognition framework onto a model of the existing literature. Using our framework as a guide, we develop broad research directions that can fill major gaps in the field’s understanding of corrective action decision-making and the determinants of corrective action effectiveness. We summarize these directions in Table 4.

Drivers of Accommodative Corrective Actions Following Misconduct

Although researchers have extensively studied accommodative responses to misconduct, further research is needed to understand the mechanisms that drive managers to take an accommodative stance regarding stakeholder claims. A stakeholder theory–managerial cognition framework suggests that, following misconduct, the claims of affected stakeholders provide an important input to managers’ corrective action decisions. However, gaps remain in the literature, as we lack understanding of how the claims of affected stakeholders and managers’ perceptions of those claims influence corrective action decision-making.

To fill these gaps, researchers must continue investigating the characteristics of affected stakeholders and the content of their claims to determine how those claims influence managers’ corrective action decisions. Research could examine how managers interpret the legitimacy, power, and urgency of stakeholders affected by misconduct, especially depending on the severity of the misconduct. In addition, firms may have multiple salient stakeholders following misconduct. Therefore, research is necessary to consider the specific characteristics of stakeholders to determine how managers assess the relative importance of salient stakeholders when considering how to respond. Prior work in stakeholder theory indicates that stakeholder salience increases with the number of critical characteristics the individual or group possesses (Mitchell et al., 1997). However, managers’ perceptions of stakeholder salience following misconduct may operate differently than stakeholder salience in general. It is possible that because some stakeholders affected by misconduct can threaten punitive power over the firm, managers may respond to stakeholders that have power, but lack legitimacy or urgency. This may explain why some managers attempt to anticipate stakeholder claims and act before receiving an explicit, urgent demand.

Going a step further, future research is also necessary to understand how managers’ perceptions and interpretations of the content of affected stakeholder claims influence managers’ objectives for corrective action. For instance, in terms of the content of a claim, can managers easily interpret what stakeholders want them to accomplish with the resultant corrective action? In some cases, such as a product safety issue, the stakeholder claim and desired corrective action may be relatively evident and even explicitly demanded (i.e., customers demand the safety issue be resolved, so the firm issues a recall). However, following other types of misconduct, such as employee mistreatment and environmental violations, stakeholder claims may be less explicit or obvious, which may make it difficult for managers to adopt an accommodative corrective action. When managers can clearly understand what stakeholders want from the organization and how they can fulfill those desires, they may be more likely to take an accommodative stance than they would be.
otherwise—simply because they can readily assess stakeholders’ desires. In addition, although stakeholder claims are often explicit, managers also frequently attempt to anticipate stakeholder claims and take corrective actions in a more proactive manner (Hora et al., 2011). Although it may be easy for managers to interpret and respond to explicit stakeholder demands, it may be difficult to anticipate and accommodate tacit stakeholder claims. Thus, in anticipating demands, how do managers decide among corrective actions? Do managers follow a “playbook” based on common industry practices?

Research is also necessary to examine factors that strengthen the effects of stakeholder claims. For example, strong societal or industry norms for fairness and justice in stakeholder treatment may strengthen the effect of salient stakeholder claims on managers’ corrective action decisions (Hillman & Keim, 2001). In societies that abide by a strict moral code or industries that place an emphasis on stakeholder relations, managers may be more likely to adopt an accommodative stance because of social or institutional pressure (DiMaggio & Powell, 1983).

In addition, when managers have a cooperative or personal relationship with stakeholders, such as strategic partners or employees, they may be more sensitive to their claims than they would be otherwise. Therefore, research is necessary to understand when managers are willing to accommodate weak claims to avoid relationship damage.

Last, research is necessary to investigate when and why managers choose to accommodate claims from stakeholders that do not possess the critical attributes that determine salience. Examples suggest that companies sometimes respond in an accommodative way to consumer boycotts of illegitimate concerns or gadfly investors that do not have the power to punish the firm if ignored (Bundy et al., 2013). Additional research would help provide insight into the drivers of accommodative responses to nonsalient claims.

### Drivers of Defensive Corrective Action Following Misconduct

Future research is also necessary to empirically explore the direct connections between managers’

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**TABLE 4**

Research Directions and Questions for Future Study

<table>
<thead>
<tr>
<th>Research Direction</th>
<th>Key Future Research Questions</th>
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<tbody>
<tr>
<td>Drivers of accommodative corrective actions following misconduct</td>
<td>How do managers interpret the legitimacy, urgency, and power of the stakeholders’ claims depending on the severity of the misconduct? Following organizational misconduct, what is the relative importance of the three dimensions of stakeholder claim salience—power, legitimacy, and urgency—in determining managerial responsiveness? Are managers more/less likely to accommodate stakeholder claims when they can/cannot clearly understand what stakeholders want them to accomplish? Does a paradigm exist in research and practice that promotes accommodative responses to stakeholder claims following misconduct and does that paradigm influence managers’ decisions? What societal- or industry-specific norms influence corrective action choices following specific types of misconduct? When and why do managers accommodate nonsalient stakeholder claims?</td>
</tr>
<tr>
<td>Drivers of defensive corrective actions following misconduct</td>
<td>What kinds of stakeholder claims and strategic goals are managers most likely to believe are in conflict with each other, thereby motivating a defensive response? Do managers assess alignment/conflict between stakeholder claims and strategic goals in absolute terms or on a scale? Does a threshold for conflict with strategic goals exist that a claim must exhibit before managers will pursue defensive action? Do contentious stakeholder relationships or certain external/internal environmental conditions make managers more likely to pursue defensive corrective actions when they perceive conflict?</td>
</tr>
<tr>
<td>The determinants of corrective action effectiveness</td>
<td>When and why do stakeholders consider a corrective action effective? How important is recidivism to stakeholders affected by different types of misconduct? Do stakeholders only react favorably to actions that directly accommodate their claims or demands? How do managers assess the effectiveness of defensive actions? What factors enhance the effectiveness of firms’ corrective actions? Are these factors different for accommodative versus defensive responses? When does introducing multiple corrective actions increase the effectiveness of a firm’s overall response? Which action combinations are most effective?</td>
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cognitions, objectives, and behavior. Researchers can approach the question of how managers interpret and filter stakeholder claims through their cognitive structures from a variety of directions. For example, what kinds of stakeholder claims and various firm priorities are managers most likely to perceive as conflicting with one another, thereby driving defensive responses? These characteristics may vary based on characteristics of the claim as well as the type of corrective action under consideration. Therefore, research could examine managerial choices when stakeholder claims conflict with other interests that are important to the managers themselves, their firm, or other stakeholders.

Going deeper, future research is also needed to understand the process by which managers assess stakeholder claims through their cognitive structures. Specifically, do managers assess the conflict between salient stakeholders’ claims and cognitive structures in absolute terms or on a relative scale? Although it is possible that in some situations, managers can clearly discern that a stakeholder’s claim conflicts with other priorities, it is likely that managers cognitively assess a claim on a continuous scale wherein a claim can conflict with other interests to varying degrees. If they assess claims on a scale, is there some threshold level of conflict that must be met before managers consider implementing a defensive action? Furthermore, when conflict exists, but only in low levels, can managers implement corrective actions in such a way that they have real options to shift toward a more accommodative or defensive implementation later? For example, with low levels of conflict between a stakeholder claim and another interest, managers could implement a policy that they can decouple at a later date when they have more information (Bromley & Powell, 2012; McGrath, 1997, 1999).

Another fruitful avenue involves examining potential moderating factors. For example, prior difficult experiences with certain stakeholder groups might influence managers toward interpreting salient claims from that group as conflicting with their cognitive structures (Donaldson & Preston, 1995; Rowley, 1997). When managers have a contentious relationship with stakeholder groups, they may presume conflict. Alternatively, conditions in the firm’s external or internal environment might influence how managers interpret stakeholder claims (Darnall, Henriques, & Sadorsky, 2010). For instance, when resources are scarce within the firm or external competition is intense, managers may believe that they have less flexibility to accommodate stakeholder claims even when the claims align with their cognitive structures. In these situations, even minor perceptions of claim misalignment may be a strong predictor of the choice to defend or ignore stakeholder claims.

The Determinants of Corrective Action Effectiveness

A topic that is particularly ripe for future research is determining the effectiveness of corrective actions from both managers’ and stakeholders’ perspectives. Extant research indicates that corrective actions are most effective when managers directly accommodate affected stakeholders. This would certainly be true from the stakeholders’ perspective, wherein effectiveness might be considered as a function of how well managers match the corrective action to their claims. Accordingly, previous research indicates that accommodative actions tend to restore not only stakeholders’ perceptions of trust, legitimacy, and reputation but also enhance performance (Coombs, 2007a; Greenwood & Van Buren, 2010; Greve et al., 2010; Schnackenberg & Tomlinson, 2016). However, studies rarely examine whether stakeholders’ specific claims were addressed. For instance, when mistreated employees demand a change in policy to prevent further mistreatment, do managers make the requested change and does it actually prevent future mistreatment? For those stakeholder claims that require the firm to eliminate its harmful behavior, recidivism rates among firms that implement corrective actions would provide an indication of whether the organization truly accommodated the stakeholders’ claims. Alternatively, when a defective product injures a customer, the customer’s claim may require that the organization compensate for their pain and suffering. Researchers might study how often firms willingly offer reparations and when doing so satisfies stakeholders. Thus, researchers can expand their focal outcomes beyond stakeholder reactions to gain a better understanding of whether corrective actions directly address stakeholders’ claims.

Another area where additional insight is necessary involves examining widely studied stakeholder reaction-related outcomes under unique circumstances. We know that when managers accommodate affected stakeholder claims, those stakeholders tend to react favorably (Coombs, 2007a; Gangloff et al., 2016). However, are there situations when managers ignore or defend a stakeholder’s claims and the stakeholder still considers it an effective action? Some stakeholders may be able to discern that for managers to accommodate their claims, it
would imperil important firm goals or the needs and desires of other stakeholder groups. In such situations and at their own expense, affected stakeholders might prefer that managers pursue a course of action that preserves other important factors.

Researchers can also widen the scope of corrective action outcomes to capture corrective action efficacy from the managers’ perspective. Determining outcomes that indicate corrective action efficacy from the managers’ perspective depends on the objectives they seek to fulfill. Managers may willfully sacrifice their firm’s legitimacy, reputation, and stock price to protect their personal welfare or their organization’s strategic resources and plans. Thus far, the literature has not examined metrics of efficacy from this perspective. Therefore, when studying the efficacy of defensive actions, researchers can gain understanding by assessing outcomes in relation to managers’ objectives.

In line with examining outcomes from the managers’ perspective, future research could offer conceptual and, if possible, empirical models of corrective action effectiveness when managers respond defensively following misconduct. After assessing what outcomes managers hope to achieve with defensive actions, researchers should examine whether or not managers successfully achieve their objectives. For example, in terms of executive dismissals, are managers able to protect themselves or other valuable human resources by dismissing a scapegoat? For recalls, when managers stonewall following a product safety problem, does this help them avoid issuing a recall or help them limit the costs of the recall? Continuing this line of inquiry, are the costs of forced corrective actions greater than voluntary corrective actions?

Research is also necessary to explore the potential moderators of both accommodative and defensive corrective action effectiveness. For example, scholars have begun to explore media coverage as an outcome of misconduct and corrective actions (Zavyalova et al., 2012), but it is possible that corrective actions and media coverage interact as predictors of outcomes such as legitimacy or other stakeholder reactions. When a firm dismisses an executive following an instance of fraud and names an outside successor (i.e., accommodative dismissal), extensive media coverage of the corrective action may increase its effectiveness in terms of restoring firm legitimacy among investors and producing a favorable stock market reaction because the media is amplifying the firm’s signal that it is making substantial changes. However, it is equally likely that media coverage or scrutiny might amplify negative stakeholder reactions associated with defensive actions because the media may highlight that the firm is not accommodating stakeholder claims.

Researchers can also consider factors that interact with defensive responses to weaken the negative effects they tend to have on stakeholder reactions. For example, firms that have a strong positive reputation before misconduct might not experience as severe a reaction from stakeholders when they use organizational accounts to deny culpability and avoid responsibility. Strong reputations may make it easier for stakeholders to accept the firm’s denial (Coombs & Holladay, 2002).

Furthermore, while in practice firms almost always use more than one corrective action simultaneously, researchers rarely examine how multiple corrective actions work together. For example, when a firm releases an unsafe product, it is common for the firm to issue a recall, dismiss the responsible executives, change operational policies to prevent future product safety problems, and offer penance to affected customers. Moreover, executive dismissals, recalls, and policy changes are nearly always accompanied by some form of public response, such as a press release or direct communication. However, we know relatively little about managerial goals with respect to combinations of corrective actions and their perceived efficacy. Similarly, future research can examine which combinations of actions are most effective for producing specific outcomes or whether additional corrective actions reduce the efficacy of others. Finally, scholars could also explore how implementing accommodative and defensive action simultaneously fulfills different or conflicting objectives.

CONCLUSION

The popular press is littered with examples of corporate malfeasance that range from financial fraud to sexual misconduct to product recalls. Indeed, scandals at firms such as Uber, Wells Fargo, and Facebook continue to plague the corporate landscape. Following misconduct, firms must decide how to proceed, and a large body of literature surrounding these corrective actions has developed. Our review highlights that corrective actions have a variety of drivers and outcomes, which are studied across diverse literatures. We offer an organizing typology and a stakeholder theory-managerial cognition framework to help advance the literature. Ultimately, our objective is to advance exciting
avenues for future research on corrective actions following misconduct.

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