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Does Who We Are Influence What We Say? The Impact of Organizational Identity on Responses to Ethical Issues

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Abstract

Business organizations frequently face ethical issues which may lead stakeholders to question the competence or integrity of organizational actors. In such cases, the way the organization communicates with its stakeholders can play a critical role in preserving or restoring organizational reputation, financial performance, and trust. Thus, understanding factors that influence organizational communication in the wake of ethical issues is important. Previous research has focused on the impact of situational characteristics on organizational responses and stakeholder reactions to those responses but has not explored the role that organizational characteristics play in shaping firms' responses to ethical issues.

The current study seeks to understand how organizational characteristics influence responses to ethical issues. The focus of the paper is the initial communicative response, defined as the first public statement made by an organization regarding an issue which may be perceived as an ethical one. This study examines responses to one type of ethical issue which many companies face – financial restatements. The outcomes of interest in this study are the prominence and informativeness of restatement announcements made by organizations after learning of a need to correct previous financial misstatements. Hypotheses focus on the influence of organizational characteristics on restatement announcements, using an organizational identity framework. Specifically, it is predicted that organizational identity orientation and the extent to which social responsibility is included in the content of an organization's identity will shape managers' perceptions of and responses to ethical issues.

Results provide evidence of a relationship between a relational/collectivistic OIO and the informativeness of a firm's initial restatement announcement as well as a positive correlation between the magnitude of the restatement and the informativeness of the restatement

announcement. Results also show a significant negative interaction between a relational/collectivistic OIO and the magnitude of the restatement in predicting the amount of information provided. The interaction between commitment to social responsibility and the magnitude of the restatement in predicting the informativeness of the announcement is marginally significant and positive. Taken together, these findings provide evidence that organizational characteristics can influence responses to ethical issues and also interact with situational factors to further influence responses to these issues.

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Chapter 1

Statement of the Problem

Organizations must frequently respond to situations which may be perceived as possible cases of ethical impropriety. From allegations that Lehman Brothers used complex and deceitful accounting practices to inflate their balance sheet by billions of dollars before their collapse (Ives & Mattingly, 2008; Jeffers, 2011) to accusations that the U. S. Nuclear Regulatory Commission has repeatedly ignored warnings of unsafe conditions (Koch, 2011), barely a day goes by without an organization somewhere facing allegations of ethical misdeeds.

Organizations face ethical issues when stakeholders believe that actions of the organization (or its members) have caused harm to people, animals, or the natural environment; have led to unjust benefit to certain parties; or have violated social norms or values. The existence of an organizational ethical issue is determined by the perceptions of stakeholders. This means that an ethical issue may exist even if the organization did not actually have volition in the actions or inactions which led to the situation or if the organization's choices did not actually cause harm. What is important is whether or not stakeholders or the public believe an ethical issue exists.

When stakeholders believe that an ethical issue exists and that an organization has been involved in this issue, the company must respond to the issue in order to allay the concerns of stakeholders. A company's response regarding an ethical issue can have important implications. The organization's initial response sends a message to stakeholders including employees, investors, customers, and regulators. The initial response provides cues about the organization's stance toward ethical issues and can have a long-term impact on public perceptions and the internal ethical culture of the organization (Garrett, Bradford, Meyers, & Becker, 1989).

Appropriate organizational responses can help to minimize reputational damage (Coombs, 2007), restore organizational legitimacy (Elsbach, 1994; Pfarrer, Decelles, Smith, & Taylor, 2008a), restore financial performance (Knight & Petty, 1999; Marcus & Goodman, 1991), influence the tone of media coverage (Huang, 2006), and limit legal liability or stave off increased regulations by being proactive in addressing problems (Fitzpatrick, 1995; Pfarrer, Smith, Bartol, Khanin, & Zhang, 2008b).

Organizations facing ethical issues can employ a number of different types of communicative responses. Some types of responses that have been explored in past research include concession, denial, justification, excuse, offensive tactics, minimization, and stonewalling (Anand, Ellstrand, Rajagopalan, & Joshi, 2009; King, 2006; Szwajkowski, 1992). Research has shown that certain types of responses are more likely than others to be viewed favorably by stakeholders (Bradford & Garrett, 1995; Elsbach, 1994). For example, in a study of a series of crises affecting the California cattle industry, Elsbach (1994) found that, for restoring perceptions of organizational legitimacy, acknowledgments were more effective than denials. Additionally, explanations based on institutional factors, such as socially endorsed structures or goals, were more effective at restoring perceptions of legitimacy than explanations based on technical concerns, such as operational efficiency or organizational effectiveness.

Evidence also shows that the type of response most likely to be accepted by stakeholders varies depending on a number of organizational and situational factors (Coombs, 2006; Kim, Ferrin, Cooper, & Dirks, 2004; Marcus & Goodman, 1991). For example, Marcus and Goodman (1991) found that market reactions to accommodative statements (i.e., statements in which managers admitted that problems existed, took responsibility, and indicated remedial efforts were being taken) were significantly better following a scandal than following an accident.[1] Additionally, a stream of research developing and validating Situational Crisis Communication Theory (SCCT) has established that the appropriateness and acceptability of various response strategies varies depending on observers' attributions of responsibility for the crisis, the organization's crisis history, and its relational history with stakeholder groups (Coombs, 2007; Coombs & Holladay, 1996; Coombs & Holladay, 2001). This research has improved our understanding of which types of responses are most appropriate in various situations and has helped us to predict and understand stakeholders' reactions to various types of organizational responses. While this research offers prescriptive insights to managers of organizations facing ethical issues, it does not address the question of what factors predict *actual* organizational responses.

Both anecdotal evidence and research suggest that the responses organizations actually use are often not the responses that would be most appropriate given the circumstances. For example, on April 20th, 2010 BP's Deepwater Horizon oil rig exploded, killing 11 workers and starting an oil spill which would ultimately leak 184 million gallons of crude oil into the Gulf of Mexico over a period of three months before being stopped (Time, 2010). In the wake of this oil spill public opinion of BP became extremely negative, the company's market value decreased by one third (Time, 2010), and the oil industry faced the threat of increased regulation and restrictions (Office of the Press Secretary, 2010). Rather than helping to minimize these negative consequences, the company's responses often made matters worse. For example, when Tony

[1] Marcus & Goodman (1991) describe accidents as organizational crises which have identifiable victims and for which a company can plausibly deny responsibility. Scandals are described as organizational crises in which the victims are diffuse and difficult to identify and for which it is difficult to deny responsibility.

Hayward, then chairman/CEO of BP said, “There’s no one who wants this over more than I do. I would like my life back,” as the oil rig continued to spew oil after a failed attempt to stop the flow, many Americans viewed this statement as unsympathetic and selfish. Within two months of this statement, Tony Hayward had been replaced as chairman and the company still faced a long road to recovery. Anecdotal examples of poor organizational responses such as this one abound, and academic research also confirms that organizations often use communicative responses that are less than ideal. For example, although Elsbach (1994) found that technical explanations (i.e., explanations which focused on efficiency and performance) fared much worse than institutional explanations (i.e., explanations which focused on norms or regulations) at improving perceptions of legitimacy, she also found that companies frequently used technical explanations when responding to ethical issues.

The fact that there is often a mismatch between the responses most likely to garner public support in a given situation and how firms actually respond indicates that factors other than those which would drive an appropriate response must be influencing the ways that firms actually respond to ethical crises. Despite having considerable knowledge about what factors predict the *appropriateness* of a given response, we know essentially nothing about what factors predict *actual* responses. Most of the limited research that has examined actual responses has been based on case studies or has focused on developing typologies of responses (Anand et al., 2009, Coombs & Holladay, 2012). This limited descriptive research fails to capture many of the nuances of organizational responses and provides no guidance for making predictions about organizations’ actual responses to ethical issues. Without predictive models of actual responses to ethical issues, descriptive and normative models cannot aid the improvement of decision processes during such situations.

The typologies of communicative responses, such as the denial, excuse, justification, acceptance typology, can also be problematic. These typologies are often theoretically derived by crossing conceptual dimensions, such as the degree to which the organization admits harm and the degree to which the organization admits responsibility. While these typologies make it possible to understand the conceptual differences between response types, they also fail to capture some of the keys ways in which responses can vary. By taking an inductive approach to understanding key ways that responses to particular types of ethical issues may vary, I hope to more closely connect research and practice. This approach is similar to that which was used by Elsbach in developing the distinction between institutional and technical explanations in her study of crisis responses by firms in the California cattle industry (Elsbach, 1984).

The purpose of the current study is to begin to explore factors that predict organizations' actual responses to issues which may be perceived as ethical in nature. The focus of the paper is the initial communicative response, defined as the first public statement made by an organization regarding an issue which may be perceived by stakeholders as an ethical one. Initial communicative responses are important for a number of reasons. Negative market reactions to perceived ethical issues can be swift and severe, and the firm's initial response may help to slow or reverse plunging market value in the wake of an ethical crisis (Fombrun & van Riel, 2004; Knight & Petty, 1999).

A number of complementary theoretical perspectives suggest that initial information will have stronger and more enduring effects on beliefs and attitudes than subsequent information. The anchoring and adjustment hypothesis from prospect theory suggests that initial information provides an anchor for beliefs and these beliefs are adjusted, often inadequately, in response to additional information (Tversky & Kahneman, 1974). The primacy effect suggests that information received earlier is more likely to be recalled subsequently and thus more likely to have an enduring impact on attitudes and beliefs (Bellezza, Andrasik, & Lewis, 1982; Cong, 2010). Uncertainty management theory suggests that individuals are most likely to seek and pay attention to information during times of uncertainty (Lind & Van den Bos, 2002). Because concerns about possible ethical misdeeds create uncertainty for various stakeholders such as employees, shareholders, and consumers, initial responses provide salient cues about the organization's position. Research has also shown that initial impressions can bias subsequent attention to, and interpretation of, information (Bond, Carlson, Meloy, Russo, & Tanner, 2007). Finally, public reactions to organizational responses to ethical problems may be path-dependent. That is, stakeholders may react negatively if the company changes its story too much and may not pay attention when information is inconsistent with initial impressions (Karelaia, 2006).

Because the initial information received is likely to impact stakeholders' long-term perceptions, this study examines initial communicative responses to one type of ethical issue which many companies face – financial restatements. Specifically, I examine characteristics of restatement announcements made by organizations after learning of a need to correct previous financial misstatements. Restatements are necessary when it is determined that errors or irregularities (i.e., intentional misapplication of generally accepted accounting principles GAAP) have led to material inaccuracies in a firm's previous financial disclosures. Restatements vary in magnitude from relatively minor events to extreme cases which lead to such large changes in valuation and investor confidence that bankruptcy ensues, as in the cases of Enron, Worldcom, and Dynegy. Financial restatements may be initiated by an internal audit, an external audit, or by recommendations from the Securities Exchange Commission (SEC). Additionally, restatements often lead to a decrease in share value and sometimes lead to SEC investigation or class action lawsuits on behalf of investors. Any of these consequences can threaten firm goals. Finally, regulatory requirements mandate that firms must publicly disclose and amend previous material misstatements, and the desire to re-establish or maintain firm value in the wake of a restatement increases pressure to provide appropriate initial communications regarding the restatement.

Many restatements represent situations which may be perceived by regulators, investors, analysts, researchers, and the public as indications of possible ethical wrongdoing (Gertsen, Riel, & Berens, 2006; Pfarrer, Smith, Bartol, Khanin, & Zhang, 2008b). In many cases, shareholders and other stakeholders may believe that inadequate controls or intentional dishonesty led to the misstatement, and shareholder wealth and firm financial stability can decrease substantially as a result of a restatement. In some cases, restatements even lead to lawsuits, bankruptcy, and organizational failure, as was the case with Enron. Additionally, although it is difficult to objectively determine whether or not managers intentionally manipulated or misstated previous earnings reports, analysts, investors, and the public are likely to suspect that unethical or aggressive accounting practices or a failure of internal controls may have led to the misstatement. These perceptions are supported by previous research which has shown that evidence of substantial earnings management can often be detected years before a restatement is issued (Ettredge, Scholz, Smith, & Sun, 2010).

Despite an increasingly restrictive regulatory environment, firms continue to exercise considerable discretion in key characteristics of the announcements they make regarding restatements. Specifically, some restatement announcements are far more transparent, or prominent, than others, and some restatement announcements contain a great deal of information about the restatement while others contain very little information. For example, some restatement announcements contain information about the amount of the restatement, the reason for it, how it was discovered, and corrective actions being taken to prevent future misstatements, while other restatements announcements contain none of this information. Additionally, some restatement announcements include the word "restatement" in the title while other mention it only in the body of the press release or even a footnote. Thus, I explore the impact of organizational characteristics on the prominence and informativeness of initial restatement announcements.

In order to make predictions about the influence of organizational characteristics on restatement announcements, I apply an organizational identity framework. Organizational identity represents central, distinctive, and relatively enduring characteristics of an organization; therefore one would expect aspects of identity to influence perceptions regarding potential ethical issues and organizational responses to these issues. It is likely that ethical issues create situations in which organizations will show their true colors, and aspects of organizational identity are likely to become key drivers of responses to such issues. Because organizational identity orientation (OIO) captures "the nature of assumed relationships between an organization and its stakeholders" (Brickson, 2005 pg 577), it is likely that OIO will play a role in shaping the manner in which companies communicate with their stakeholders. It is also likely that the extent to which a commitment to social responsibility is embedded in a company's organizational identity will also influence their responses to ethical issues. Thus, I predict that organizational identity orientation and the extent to which social responsibility is included in the content of an organization's identity will shape managers' perceptions of and responses to ethical issues.

Organizations' identity orientations can be individualistic, relational, collectivistic, or hybrids between two of these three pure types. An organization with an individualistic OIO tends to define itself in terms of its own positively distinguishing characteristics (Brickson, 2005, 2007). Such firms tend to be relatively competitive and focused on objective performance metrics. Firms with relational OIOs derive a significant portion of their own identities from their relationships with particular partners (Brickson, 2005, 2007). Such firms are likely to show concern for building and maintaining relationships with stakeholders such as suppliers, customers, or employees. Firms with collectivistic OIOs define themselves in terms of membership in particular social or ideological groups (Brickson, 2005, 2007). In some cases the groups from which collectivistic OIOs derive a sense of self are defined by a commitment to a social goal or set of ideological values such as a protecting the natural environment or promoting human rights. Organizations with relational or collectivistic OIOs are more likely than those with individualistic OIOs to evaluate themselves using subjective performance criteria which reflect their commitments to relationship partners or broader social groups.

A firm's commitment to social responsibility is the extent to which the firm acts upon values which are consistent with prevailing societal notions about what organizational actions are considered socially beneficial and ethical. Such a commitment is likely to influence firm behaviors in a variety of domains. In this study, I predict that firms with relational or collectivistic OIOs and those which are committed to social responsibility will announce restatements in a more prominent and forthright manner and will provide more information about the restatement than firms which have an individualistic OIO and those for whom social responsibility is not a central aspect of organizational identity. I also predict that these relationships will become stronger as the magnitude (in monetary terms) of the restatement increases and that the regulatory environment may also moderate these relationships.

In order to test the relationship between OIO and the prominence and informativeness of the restatement announcements, I develop and validate a measure of OIO based on coding 10-K reports for evidence of individualistic, relational, and collectivistic OIOs. 10-K reports are filed annually with the SEC and are intended to provide shareholders and other stakeholders with information about the company, its activities and financial performance, and its future prospects. Because I am interested in measuring non-financial aspects of the organization, the coding focuses on the narrative portions of the 10-K, including the Business Strategy and Risk Factors sections of the report. These are areas of the 10-K in which managers have relatively high discretion about what they report and are where statements indicating a firm's OIO are most likely to be found.

Key contributions of this study include an understanding of ways that organizational identity influence responses to ethical issues, specifically in regards to financial restatements, as well as the development and application of a measure of organizational identity orientation using publicly available, archival information. Examining ways that organizational identity influence the prominence and informativeness of restatement announcements may allow us to understand whether certain organizations are predisposed to be more or less forthcoming with information following an ethical issue.

Findings provide some evidence of a positive relationship between a relational or collectivistic OIO and the informativeness of a firm's initial restatement announcement. Results also show a positive correlation between the magnitude of the restatement and the informativeness of the restatement announcement as well as a significant interaction between a relational/collectivistic OIO and the magnitude of the restatement in predicting the amount of information provided. The nature of this interaction indicates that the positive relationship between the magnitude of the restatement and the informativeness of the announcement is weaker for firms with strong indications of relational/collectivistic OIOs than for firms which have little or no indication of relational/collectivistic OIO. Results also demonstrate a marginally significant interaction between commitment to social responsibility and the magnitude of the restatement in predicting the informativeness of the announcement. In this case, the positive relationship between the magnitude of the restatement and the informativeness of the announcement is stronger for firms which are high on CSP than for those which are low on CSP. Taken together, these findings provide some evidence that organizational characteristics can influence responses to ethical issues and can also interact with situational factors to further influence responses to these issues.

Chapter 2

Literature Review

In a broad sense, I am interested in how characteristics of an organization influence the self-presentation tactics used by that organization when facing ethical issues. In order to make predictions I apply an organizational identity framework. I test my predictions in a study of differences across organizations in the prominence and informativeness of announcements regarding financial restatements. Before presenting the model and hypotheses to be tested I discuss past research regarding organizational responses to ethical issues, discuss shortcomings in the existing response literature, review organizational identity literature, and provide relevant background information about financial restatements.

2.1 Organizational Ethical Issues

To the general population, organizational, ethical issues are defined as "a problem or situation that requires a person or organization to choose between alternatives that must be evaluated as right (ethical) or wrong (unethical)" (Luthra, 2007-2011). Of course, academics recognize that such a definition is far too vague to have any practical meaning since terms like "right" and "wrong" are highly subjective. Thus, many researchers define an ethical issue as "a situation in which one's actions, when freely performed (i.e., volition), may harm or benefit others" (Jones, 1991 pg 367; Velasquez & Rostankowski, 1985). In later works, this definition has been expanded to include situations in which volitional actions may harm or benefit animals or the natural environment as well as people (Flannery & May, 2000). Additionally, many definitions of ethical issues also include concern for prevailing societal norms and values (Ashforth & Anand, 2003). Based on this element of the definition of an ethical issue, actions which deviate from social norms, such as lying or cheating, can be considered unethical even if no apparent harm or benefit is caused. Taken together, these definitions suggest that an ethical issue is one in which there is a potential for harm or benefit to others, animals, or the environment or in which prevailing societal norms and values are relevant.

The existence of an organizational ethical issue is largely determined by the perceptions of stakeholders. This means that an ethical issue may exist even if the organization did not actually have volition in the actions or inactions which led to the problem or if the organization's choices did not actually cause harm (Coombs, 1998). What is important is whether or not stakeholders or the public *believe* that the organization played a role in causing harm, unfairly enriching certain parties, or violating societal norms. Thus, if stakeholders believe that an ethical issue exists, the company will need to respond to the situation in ethical terms in order to allay the concerns of stakeholders (Pearson & Clair, 1998). Another important implication of defining organizational ethical issues in terms of stakeholder perceptions is that the organizational actions that will eventually lead to the ethical concern may be ongoing or may happen long before the public or other stakeholders become aware of the situation.

Examples of organizational ethical issues abound both in the news and academic research. For example, Elsbach's (1994) study of a series of legitimacy-threatening crises facing the California cattle industry involve events with ethical implications such as environmental degradation, public health concerns, and animal welfare issues. Examples of the events studied by Elsbach include grazing in a state park, accusations of animal cruelty in the beef industry, and a European ban on U.S. beef due to concerns about the safety of hormones used in beef production. Dutton & Dukerich's (1991) study of the threats to the organizational identity and image of the New York and New Jersey Port Authority which resulted from the organization's initial lack of compassion in handling an influx of homeless individuals into the organization's facilities illustrates the problems that arose when a company failed to recognize the ethical nature of an issue which outsiders perceived in ethical terms. In this situation, the Port Authority initially viewed the homeless individuals as a threat to valued organizational goals such as cleanliness, efficiency, and safety. The organization responded to this perceived threat by having homeless people arrested or shooed out of their facilities by police officers. These actions led to negative public perceptions as outsiders came to view the Port Authority as cold and uncaring. Eventually these events led to a change in the organizational identity of the Port Authority such that a social service identity became integrated into the mission, values, and behaviors of the organization (Dutton & Dukerich, 1991).

2.2 Organizational Responses to Ethical Issues

Broadly defined, organizational responses to ethical issues can include any symbolic or substantive statement or action (or the lack thereof) by the organization in reaction to an ethical issue or allegation. Actions taken by organizations in response to ethical issues may reduce the harm caused by the situation (e.g., recalling a harmful product), prevent such problems from occurring in the future, or provide restitution for harms caused. While such actions can be extremely important, this study and the remainder of this review focus on *communicative* organizational responses to ethical crises. Statements made in response to organizational ethical crises are often viewed as important managerial efforts which serve to influence public perceptions of the issue and the organization (Elsbach, 1994). To these ends, communicative responses may include explanations of what happened, statements regarding the organization’s position regarding the crisis, and indications of actions that have been or will be taken.

2.2.1 Communicative Responses to Ethical Issues. Communicative responses provide important information and cues to the public, and if handled properly can help the organization recover goodwill and financial performance after an ethical issue (Coombs, 2007; Elsbach & Elofson, 2000; Huang, 2006). In fact, the model of post-transgression organizational reintegration with stakeholders presented by Pfarrer and his colleagues (Pfarrer, Decelles, Smith, & Taylor, 2008a) suggests that the process by which organizations regain integration and acceptance cannot move forward until stakeholders are satisfied with their knowledge regarding what happened and with the explanation of events provided by the organization.

The majority of past research regarding organizational communicative responses to ethical issues has focused on creating lists and typologies of response types (e.g. Anand et al., 2009; Benoit, 1997; Coombs, 2000; Garrett, Bradford, Meyers, & Becker, 1989; Szwajkowski, 1992) or theorizing about and investigating which responses lead to the most favorable stakeholder reactions under various conditions (Bradford & Garrett, 1995; Coombs, 2007; Elsbach, 1994; Marcus & Goodman, 1991). Existing typologies of organizational communicative responses are built around various dimensions, such as the degree to which the organization acknowledges that the events happened and takes responsibility for the events (Garrett et al., 1989), the degree to which the organization accommodates the interests of victims and stakeholders versus the degree to which the organization seeks to defend its own interests (Coombs, 2000), whether the organization seeks to deny, diminish, or deal with the crisis (Coombs, 2006), and the degree to which statements focus on institutional versus technical explanations (Elsbach, 1994).

Some of the most commonly studied types of responses include denial, excuse, justification, and acceptance (Garrett et al., 1989; Szwajkowski, 1992). A denial asserts that there is no harm or ethical concern, while an excuse admits that an issue exists but denies or minimizes the organization's responsibility for the situation. A justification admits that the organization was involved in the issue but seeks to reframe events in a positive manner through the use of rationalizations and accounts. Acceptance involves admission that the issue exists, the events are negative, and the firm is responsible (Garrett et al., 1989). Acceptance and denial represent polar extremes, and there are multiple responses that fall between the two. For example, a firm could admit that the ethical issue exists but attempt to make it seem less severe than initially portrayed. This type of response can be referred to as minimization or reductionism (Benoit, 1997; Coombs, 2000).

Research regarding stakeholder reactions to various types of organizational responses to ethical issues has roots in a long tradition of sociological research regarding the formulation and honoring of interpersonal and organizational accounts (Blumstein et al., 1974; Scott & Lyman, 1968; Sykes & Matza, 1957). An account is “a statement made by a social actor to explain unanticipated or untoward behavior – whether that behavior is his own or that of others, and whether the proximate cause for the statement arises from the actor himself or from someone else” (Scott & Lyman, 1968 pg 46).

Accounts are especially important during non-routine or untoward situations. In fact, Scott and Lyman (1968) state that accounts are unnecessary when behavior falls within the bounds of pre-established norms and routines but accounts are “routinely expected when behavior falls outside the domain of expectations” (pg 46). Thus, accounts differ from explanations in that explanations make rational connections between routine, taken-for-granted behaviors and the values and goals believed to drive such behaviors. Accounts, on the other hand, are statements offered when behaviors are inconsistent with the norms and expectations of a situation, context, or social role or identity (Scott & Lyman, 1968). Accounts help both actors and observers make sense of actions and events which cannot be understood through pre-existing explanations or conventional rationales. Additionally, accounts offer justifications or excuses in order to mitigate blame or reduce negative attributions about the actor(s) involved. Thus, accounts serve sensemaking, sense-giving and impression management functions.

2.2.2 Shortcomings of Existing Response Literature. Existing research regarding organizational responses to ethical issues has provided some useful insights, particularly from a normative standpoint. Nonetheless, some key shortcomings should be addressed in order to improve the practical relevance of this research. First, although theoretically derived typologies can be useful in delineating different response types, it is important to also use observation-based approaches to understanding the different types of responses organizations actually use in various situations. Second, despite a relative abundance of descriptive and normative research, there is almost a complete lack of predictive research designed to study the factors which influence characteristics of organizational responses to ethical issues. This study addresses these shortcomings by using an inductive approach to understanding ways that organizational responses to restatement events can vary and by exploring ways that aspects of organizational identity influence responses to ethical issues.

2.3 Organizational Identity

In order to begin to address the lack of predictive research regarding organizational responses to ethical issues, I apply organizational identity theory to make predictions about how characteristics of an organization will influence companies' responses to ethical issues. Despite the fact that previous research has not systematically examined the role of organizational identity in shaping responses to ethical issues, it is a logical place to begin such research. By definition, organizational identity is a fundamental aspect of an organization which will be reflected in the strategy, structure, culture, and daily operations of an organization (Albert & Whetten, 1985;

Ashforth & Mael, 1996). Additionally, organizational identity provides the lens through which managers and other members of an organization perceive and interpret events (Anand, Joshi, & O'Leary-Kelly, 2013; Dutton & Dukerich, 1991; Livengood & Reger, 2010). Organizational identity also plays a role in determining the type of information that will be sought and attended to and the range of actions that may be considered by a given organization (Anand et al., 2013). In sum, previous work has found that organizational identity is a key determinant of perceptions and responses to a variety of issues and events faced by organizations. This suggests that aspects of organizational identity are likely to influence both managerial perceptions of ethical issues and responses to such issues.

2.3.1 Social Actor and Social Construction Approaches. Organizational identity has been defined as the set of central, distinctive, and relatively enduring characteristics from which an organization and its members draw a concept of who, or what, the organization is (Albert & Whetten, 1985). The two main streams of organizational identity research are the social actor perspective (e.g., Albert & Whetten, 1985; Whetten & Mackey, 2002) and the social construction perspective (e.g., Coupland & Brown, 2004; Gioia, Schultz, & Corley, 2000; Hatch & Schultz, 1997). There are also several works which incorporate aspects from both persepctives, suggesting that it may be possible to rectify key differences between the two (e.g., Corley & Gioia, 2004; Corley et al., 2006; Elsbach & Kramer, 1996; Gioia, Price, Hamilton, & Thomas, 2010).

Those in the social actor school take a functionalist view of organizational identity arguing that although different aspects of identity may be presented to different audiences and for different purposes, the fundamental aspects of who or what an organization is are largely agreed upon by organizational members (Whetten, 2006; Whetten & Mackey, 2002). This means that while an organization may have more than one identity, organization members generally have a shared understanding of the organization's identity or identities (Foreman & Whetten, 2002). Scholars applying the social actor perspective view organizational identity as an organization-level variable which can be measured based on the organization's type or its stated mission(s) (Albert & Whetten, 1985; Foreman & Whetten, 2002; Glynn, 2000). The scholars often explore ways that organizational identity influences various outcomes such as employee commitment and identification with the organization (Foreman & Whetten, 2002), the allocation of resources to various activities (Glynn, 2000), or members' interpretations of various issues facing the organization (Dutton & Dukerich, 1991).

Those in the social construction school view organizational identity as a social process rather than a social fact. Research in this stream often focuses on representations of organizational identity created by organizational members through discourse or other media (Chreim, 2005; Gioia et al., 2000; Sillince & Brown, 2009). Research has shown that organizational identity may be presented through various outlets, such as mission statements (Moss, Short, Payne, & Lumpkin, 2011), websites (Coupland & Brown, 2004), and narrative, graphic, and physical constructions created by informants to represent the identities of their organizations (Oliver & Roos, 2007). Those studying identity as a social construction often examine the use of identity narratives. Identity narratives can be of particular importance during organizations' defining moments, such as founding, disruptive change processes, or threats to the organizations existing identity. Such research has found that transitional identities and identity narratives can play an important role in creating a sense of continuity in the wake of organizational change (Clark, Gioia, David J. Ketchen, & Thomas, 2010; Corley & Gioia, 2004; Rao, Monin, & Durand, 2003).

Despite the recent popularity of the social constructionist view, those advocating a return to the social actor perspective point out that not every identity claim has equal weight and highlight the importance of distinguishing *legitimate* identity claims from other claims that individuals make about an organization or its activities (Whetten, 2006; Whetten & Mackey, 2002). Only those identity claims that are widely shared, and which relate to deep, enduring organizational commitments and values truly comprise identity at an organizational level (Whetten, 2006). The key argument from these scholars is that as a construct, organizational identity can only be distinguished from other, related concepts if we return to its initial definition and focus on aspects of the organization that are truly central, distinctive and enduring at least in the sense that shared narratives create perceived continuity and logical consistency across time.

2.3.2 Integrated Approach to Organizational Identity. While strong opinions exist on both sides of the social actor versus social construction debate, there also exists a less contentious middle ground. For scholars taking this approach it is important to ensure that the conceptualization and accompanying assumptions about organizational identity is clearly understood and appropriate for the research question at hand. Additionally, it is important to use specific terminology to acknowledge conceptual differences between related concepts such as organizational image, organizational identity, and perceived organizational identity (Corley et al., 2006; Dukerich, Golden, & Shortell, 2002; Elsbach & Kramer, 1996).

Research in this area often acknowledges that in order to be legitimate, organizational identity claims must focus only on aspects that are truly self-defining for the organization. Nonetheless, these researchers also acknowledge that managers and others may draw upon various aspects of the organization or create different comparison groups in order to maintain a positive collective identity and self-enhancing individual identification under varying circumstances (Dutton, Dukerich, & Harquail, 1994; Elsbach & Kramer, 1996). Additionally, different groups (e.g. employees and managers) experience the organization differently on a day-to-day basis. Thus it is possible for different groups to have different ideas about the organizational identity and how it is best represented based upon differences in the interfaces through which they experience the organization. For example, Corley (2004) finds that managers tend to think of the organization's identity in terms of its strategy, while employees tend to perceive organizational identity in terms of its culture. Both culture and strategy are important parts of the organizational context with both being reflections of the underlying organizational identity.

2.3.3 Consequences of Organizational Identity. Because organizational identity is such a fundamental characteristic of an organization, it shapes many aspects of organizational behavior including, attention, interpretations, and actions. Studies have found that an organization's identity can influence the extent to which members feel threatened by external events (Elsbach & Kramer, 1996). Additionally, organizational identities are often flexible and complex enough that when a valued identity is threatened, members can shift their focus to another non-threatened identity or redefine the organization's comparison group in a way that maintains positive identity perceptions. In their study of business schools' reaction to the Business Week rankings, Elsbach & Kramer (1996) found that schools who felt threatened by the rankings responded by questioning the value of the criteria for the rankings, focusing on other criteria as being more central to their own organizational identities, and redefining the group of schools against which they compared themselves. Thus, schools that did not receive as favorable a ranking as they might have liked could still make positive identity claims by touting themselves as either a technology-focused school, or an innovative school, or a top-ranked, public, Southern school depending on which characteristics or group memberships provided the most favorable self-evaluations and comparisons (Elsbach & Kramer, 1996).

In addition to defining the group of organizations which are perceived as competitors and the criteria by which comparisons to others are made, organizational identity also defines the range of actions that will be considered by managers (Anand et al., 2013). Thus, when external events create threats or opportunities for an organization, the organization's identity not only affects perceptions and interpretations of these events, but responses as well. For example, in their study of the New York & New Jersey Port Authority, Dutton & Dukerich (1991) found that an influx of homeless people into the organization's facilities was initially viewed as a threat to the organization's identity which centered on cleanliness, security, and efficiency. This interpretation of events led the organization to seek to get rid of the vagrants by kicking them out or enlisting the help of law enforcement. Taking actions to help the homeless was not initially considered by the Port Authority because no one in the organization viewed it as a social service provider. Ultimately, the organization came to enact a new, social-service oriented identity after learning that the organization had developed a callous and uncaring image due to its initial reaction to the homeless. This study illustrates the influence of identity on issue interpretation and the range of actions considered as well as the interplay between image and identity.

2.3.4 Aspects of Organizational Identity. Those studying organizational identity have explored a number of identity-related constructs including identity content, multiplicity, and organizational identity orientation. Studies of identity content examine the characteristics from which organization members derive a sense of who or what the organization is. Studies of identity content typically involve case studies (often involving changes in identity within an organization) or small-scale studies examining similarities and differences in identity content among a select group of organizations, such as English and Welsh police forces (Sillince & Brown, 2009) or American business schools (Elsbach & Kramer, 1996). Other, large-scale studies of organizational identity content infer the nature of the organization's identity based on the organizations' type or mission (Foreman & Whetten, 2002).

Another aspect of organizational identity which has been studied is multiplicity. The concept of multiple organizational identities was presented in the seminal work by Albert & Whetten (1985) and has received considerable attention. There are two perspectives regarding multiple identities. The first, associated primarily with the social actor conceptualization of organizational identity, views multiple identities as being present when an organization simultaneously pursues two or more, conflicting purposes or missions. Here, the conflicting identities are inherent in certain types of organizations such as public research universities, symphonies, or religiously affiliated hospitals (Albert & Whetten, 1985; Glynn, 2000; Pratt & Foreman, 2000). These organizations are viewed as having multiple identities because they simultaneously pursue a utilitarian or business-oriented mission as well as a normative or cultural mission. Research in this area often focuses on ways that multiple organizational identities create conflicting prescriptions for action for members or conflicts over organizational resources and actions (Albert & Whetten, 1985; Glynn, 2000).

The second perspective regarding multiple identities does not assume that there must be conflict between various identities. According to this perspective, multiple identities are simply various categories and characteristics from which members of an organization derive a sense of collective identity and with which members can identify. Here multiple identities are viewed as a source of flexibility rather than conflict. For example, in their study of business schools' reactions to the Business Week rankings, Elsbach & Kramer (1996) found that schools that felt threatened by the rankings reacted by creating positive representations of themselves which focused on distinctive characteristics which were not included in the ranking system.

2.3.5 Organizational Identity Orientation. A more recent contribution to the list of organizational identity constructs is organizational identity orientation (OIO). OIO captures "the nature of assumed relationships between an organization and its stakeholders" (Brickson, 2005 pg 577). OIOs can be individualistic, relational, collectivistic, or hybrids between two of these three pure types. An organization with an individualistic OIO tends to define itself in terms of its own positively distinguishing characteristics (Brickson, 2005; 2007). Such firms tend to be relatively competitive and focused on objective performance metrics. Firms with relational OIOs derive a significant portion of their own identities from their relationships with particular partners (Brickson, 2005; 2007). Such firms are likely to show concern for building and maintaining relationships with stakeholders such as suppliers, customers, or employees. Firms with collectivistic OIOs define themselves in terms of membership in particular groups or as part of a broader community (Brickson, 2005; 2007). In some cases the groups from which organizations with collectivistic OIOs derive a sense of self are defined by a commitment to a social goal or set of ideological values such as a protecting the natural environment or promoting human rights. Organizations with relational or collectivistic OIOs are more likely than those with individualistic OIOs to evaluate themselves using subjective performance criteria which reflect their commitments to relationship partners or broader social groups.

Hybrid OIOs may represent a particular type of multiplicity in organizational identity. Firms with hybrid OIOs can incorporate both independent (individualistic) and interdependent (relational or collectivistic) characteristics into their organizational identities. These firms may experience conflict due to their hybrid OIOs, as would be suggested by the social actor perspective on multiple organizational identities. This would be particularly likely to occur when the firm's individualistic interests conflicted with those of valuable relationship partners or groups. Alternatively, firms with hybrid OIOs may benefit from being able to incorporate both independent and interdependent considerations when responding to key issues. While the relationship between hybrid OIO and organizational outcomes is interesting, further consideration of this is beyond the scope of this study.

Because organizational identity represents central, distinctive, and relatively enduring characteristics of an organization, I expect that aspects of identity will influence perceptions regarding potential ethical issues and organizational responses to these issues. Specifically, I predict that organizational identity orientation and the extent to which social responsibility is included in the content of an organization's identity will shape the way that managers perceive and respond to ethical issues. These predictions, which will be discussed in detail in Chapter 3, are studied by analyzing a sample of restatement announcements. The next section provides key information about financial disclosure requirements and restatements and a summary of previous research relevant to the current study.

2.4 Financial Restatements

Firms are required to issue restatements when it has been determined that a deviation from or misapplication of Generally Accepted Accounting Principles (GAAP) has led to a material misstatement of previously disclosed financial reports (Levy, 2011). Financial restatements may be initiated by an internal audit, an external audit, or by recommendations from the Securities Exchange Commission (SEC) (Flanagan, Muse, & O'Shaughnessy, 2008). While some restatements may be due to unintentional mistakes or changes in interpretations of GAAP, many involve ethical issues such as fraud, intentional deviations from GAAP, inadequate internal controls, or earnings management. Earnings management is an accounting practice in which "managers choose reporting methods and estimates that do not accurately reflect their firms' underlying economics" (Healy & Whalen, 1999 p 366). While some instances of earnings management may be relatively innocuous and reversible, the practice is generally viewed as problematic by both regulators and accounting researchers (Healy & Whalen, 1999).

2.4.1 Financial Disclosure and Restatements as Ethical Issues. While it is often difficult to tell whether misstatements are due to innocent errors or intentional misreporting, researchers, investors, and regulators tend to view certain types of restatements as indications of possible unethical behavior (Arthaud-Day, Certo, Dalton, & Dalton, 2006; GAO, 2006; Harris & Bromiley, 2007; Pfarrer et al., 2008b). Restatements are also perceived as a failure of what is considered one of, if not *the* most fundamental responsibilities of corporations – the provision of clear and accurate financial reports (Flanagan et al., 2008; O'Connor, Priem, Coombs, & Gilley, 2006). Previous research has shown that evidence of substantial earnings management can often be detected years before a restatement is issued (Ettredge et al., 2010). Earnings management involves the intentional manipulation of financial reports in order to present the desired financial picture (Ettredge et al., 2010)

Restatements can occur for various reasons, which are frequently grouped into two broad categories: irregularities and errors. Irregularities are cases in which the financial misstatement was intentional, whereas errors are due to unintentional mistakes (Hennes, Leone, & Miller, 2008). Because the intentions of managers and auditors are not observable, it is difficult to objectively distinguish between errors and irregularities. Additionally, while some companies include information indicating irregularities in their restatement announcements, many companies do not offer any information about the reason for the restatement (Swanson, Tse, & Wynalda, 2007). Furthermore, companies who do use the term irregularity or fraud in their restatement announcements are penalized by more negative market reactions and increased likelihood of class action lawsuits (Hennes et al., 2008). Because it is difficult to distinguish irregularities from errors and companies may want to disguise irregularities, it is likely that the investing public maintains some suspicion of intentionality even in the absence of explicit acknowledgments of irregularities (Gertsen et al., 2006), and regulators worry that the prevalence of restatements decreases overall investor confidence in the veracity of financial reports (GAO, 2006). According to a report by the Government Accountability Office (GAO), the types of restatements that raise the most suspicion and which elicit the most unfavorable market reactions are those related to fraud and other unspecified causes; reporting related to restructuring, assets, or inventory; revenue recognition restatements; and cost or expense restatements (GAO, 2006). Thus, many restatements represent events that may be perceived by stakeholders, such as investors, analysts, and regulatory agencies as ethical issues.[2]

Previous research shows that restatements can lead to a variety of undesirable organizational outcomes including decreased share value, SEC investigations, increased costs associated with debt financing, and class action lawsuits on behalf of investors (GAO, 2006; Gertsen et al., 2006; Palmrose, Richardson, & Scholz, 2004; Park & Wu, 2009). In some cases, restatements may even lead to bankruptcy or the demise of a company (Akhigbe, Kudla, & Madura, 2005; Gertsen et al., 2006). The severity of a restatement depends on its size (generally

[2] In some cases, restatements are caused by neither errors nor irregularities but are required because of a new interpretation of or change in generally accepted accounting principles (GAAP). These restatements are far less likely to cause investors to become concerned about the veracity of company disclosures or the adequacy of internal controls. These restatements are generally excluded or treated separately in research regarding causes and consequences of restatements.

measured as the monetary value of the adjustment relative to total firm revenue), the number and types of accounts which are affected, and the number of quarters or years for which the company must amend its financial reports (Palmrose et al., 2004). Research has shown that market reactions are more negative when restatements decrease reported earnings, affect multiple accounts, or involve fraud (Palmrose et al., 2004). The market also tends to react more negatively to restatements involving revenue recognition than to restatements affecting other accounts (Akhigbe et al., 2005). Research has also found that debt markets (as well as equity markets) react negatively to restatements, and firms which restate face higher debt costs than firms which do not (Park & Wu, 2009).

2.4.2 Restatement Announcements. Although a number of regulations govern financial disclosures and restatements (e.g., SEC, 2004; SOX, 2002), previous research shows that managers exercise discretion in determining some key aspects of restatement announcements, and that these characteristics can impact financial and legal consequences of the restatement (Files, Swanson, & Tse, 2009; Gordon, Henry, Peytcheva, & Sun, 2007). Specifically, despite regulations designed to encourage transparent reporting of restatements, managers still exercise considerable discretion in choosing how forthright, or transparent, to be when making restatements and in choosing how much information to divulge in the restatement announcement (GAO, 2006).

In relation to restatement announcements, prominence is the degree to which the fact that a restatement is occurring is presented in a clear and forthright manner. (Files et al., 2009; Swanson et al., 2007). Variations in restatement announcement prominence can involve the placement of the information in a press release, and can range from explicit acknowledgement of the restatement in the headline, to inclusion within the body of the press release (coupled with a headline that does not clearly indicate a restatement), to mention of the restatement only in a footnote (Files et al., 2009; Swanson et al., 2007). Another indicator of forthrightness in restatements is the transparency of the restatement filing. Transparency is determined by the manner in which the restatement is filed with the SEC. For example, restatements are sometimes filed in an 8-K (current event filing) with an associated press release, sometimes in an amended quarterly or annual report (10-QA or 10-KA), and other times in a regularly scheduled quarterly or annual report (Myers, Scholz, & Sharp, 2011).

Previous research regarding the prominence of restatement announcements and transparency of filing techniques finds that considerable differences in the way that restatements are announced or filed exist, and that the manner of announcing or filing the restatement has an impact on market reactions to restatements (Myers et al., 2011; Swanson et al., 2007). Organizations are supposed to file an 8-K (current event report) to report the discovery of any material misstatement in previous filings (Levy, 2011; SEC, 2004), but subjectivity in the interpretation of the term "material" allows discretion in the application of this requirement (Myers et al., 2011). For this reason, when announcing restatements some firms issue 8-Ks and accompanying public press releases while others only file an amended annual or quarterly report, a 10-KA or 10-QA, respectively (Myers et al., 2011). Some firms make no special filing regarding the restatement and only include the amended financial reports in a regularly scheduled annual (10-K) or quarterly (10-Q) report (Myers et al., 2011). Additional differences in levels of prominence exist among those firms who do file 8-Ks and issue press releases (Files et al., 2009). For instance, some firms explicitly mention the restatement in the headline of the press release, while others use an ambiguous headline but mention the restatement in the first few paragraphs of the press release (Files et al., 2009; Swanson et al., 2007). Others do not explicitly mention the restatement in the body of the press release, but instead mention it only in a footnote (Files et al., 2009; Swanson et al., 2007).

Research has shown that differences in the prominence of restatement announcements can have a significant impact on market reactions to restatements. A study of the effects of different levels of prominence within press releases (headline, body, footnote) on market reactions found that within a 3 day (-1 to +1) event window, market reactions to less transparent disclosures were less negative than reactions to more transparent disclosures (Files et al., 2009; Swanson et al., 2007). When the event window was extended to 20 days after the announcement, the effect was reduced but remained significant, indicating that over time some, but not all, of the negative market reaction caught up to firms that announced restatements less prominently. These findings are in line with limited attention theory which posits that markets are not 100% efficient in incorporating all available information into the market value of a firm and that more prominent value-relevant information will be incorporated fastest with a lagging effect of less prominent information (Hirshleifer & Teoh, 2003). Similar results regarding the transparency and prominence of restatement announcements and market reactions have been found in a sample that included restatements that were announced in press releases, amended filings, and regularly scheduled filings (Myers et al., 2011). Additionally, firms that make more prominent restatement announcements have also been found to have an increased risk of litigation on behalf of investors (class-action lawsuits) and increased risk of scrutiny from regulators (Myers et al., 2011; Swanson et al., 2007). These findings provide empirical evidence that firms are often penalized for forthrightness in announcing restatements.

2.4.3 Informativeness of Restatement Announcements. Research has examined differences in the amount and type of information provided in restatement announcements and the impact of varying types of information on market reactions. Restatement announcements vary considerably in how much information they include (Gertsen et al., 2006; Gordon et al., 2007). Some of the details which may be included in restatement announcements include information about which types of accounts will be affected, the direction of the change in earnings (positive or negative), the amount of the change in earnings, information about how the misstatement was discovered, and information about changes in personnel or internal controls resulting from the investigation. For the purpose of the current study, I define *informativeness* as *the extent to which the organizational statement helps the audience understand the origin, cause, timing, consequences, and sequence of events leading up to the event in question.* Related to restatement announcements, the definition of informativeness can be further narrowed to the amount of detail about the restatement event (including the reason for the restatement, impact of the revisions on financial reports, actions being taken by the organization, and other relevant information which could help the audience understand the restatement) provided in the restatement announcement.

In general, research suggests that investors react less negatively to restatement announcements when more details are provided (Gertsen et al., 2006; Gordon et al., 2007). Empirical studies indicate that providing information about the amount of the restatement is especially important in attenuating negative market reactions (Gertsen et al., 2006; Palmrose et al., 2004; Swanson et al., 2007). Market reactions to other types of information appear less clear. For example, one study finds that market reactions are more negative when restatements are initiated by managers or auditors rather than the SEC (Palmrose et al., 2004) while another study reports that market reactions are more negative when the restatement is forced by the auditor or SEC but less negative when it is initiated by management (Akhigbe et al., 2005). What is less clear is whether or not there is a market penalty for simply excluding information about the source of the restatement. Similarly, there is evidence that investors react more negatively to restatements that affect revenue accounts and those that affect a greater number of accounts (Palmrose et al., 2004; Akhigbe et al., 2005), but there is little evidence about whether or not firms are penalized for simply excluding this information from the initial restatement announcement. Based on past research, there appear to be instrumental reasons for firms to provide information about the amount of a restatement but less clear guidance about whether or not other information will help or harm the firm's market value.

Chapter 3

Hypothesis Development

In this chapter I develop predictions relating aspects of organizational identity to characteristics of organizational responses to ethical issues. Specifically, I propose that organizational identity orientation and the firm's commitment to social responsibility and ethicality will predict the prominence and informativeness of restatement announcements. Past research suggests that organizational identity is both a filter through which information is perceived and interpreted as well as a direct determinant of behaviors (Gioia & Thomas, 1996; Livengood & Reger, 2010; Pratt & Rafaelli, 1997). Additionally, firms which have demonstrated evidence of a commitment to social responsibility and ethicality are more likely to view issues through a moral lens and to respond in ways that are consistent with their commitment to these values.

3.1 Organizational Identity Orientation

Organizational identity orientation captures the extent to which an organization defines itself in terms of its own attributes and characteristics, its relationships with particular partners or stakeholder groups, or its membership in various groups or social categories. Because OIO represents a firm's underlying beliefs about the nature of its relationships with stakeholders, it is likely to impact managerial perceptions of issues and events. For example, firms with individualistic identity orientations tend to focus on objective, instrumental outcomes (Brickson, 2005; 2007) and are therefore likely to interpret events as opportunities or threats to these outcomes. Firms with relational identity orientations, on the other hand, place a strong emphasis on relationships with particular others and are more likely to view events in terms of the impact they may have on these valued relationships. Similarly, organizations with collectivistic identity orientations are likely to perceive events in terms of their potential impact on organizational group memberships.

Perceptions and interpretations of troubling events are important indicators of OIO. In her original study, Brickson (2005) asked respondents to describe a real or hypothetical event that would be particularly troubling to the organization as part of the survey by which OIO was measured. This suggests that OIO can have a powerful influence on organizational members' perceptions of events and on the value systems that will be applied when deciding how to respond to events. The same type of event can be troubling to a firm with any of the three OIOs, but the nature of the threat caused by the event will be perceived differently depending on OIO. For example, a product recall may be troubling to any organization, but the focus of the concern will vary with OIO. An individualistic firm will be most concerned for lost profits and reputational damage. A firm with a relational OIO will be concerned about damaged trust, and a firm with a collectivistic OIO will worry about public health or consumer safety.

Financial restatements have been shown to have negative impacts on organizational financial performance (particularly market value) and trust placed in the organization by stakeholders and the public. Thus all organizations are likely to view restatements as a threat, but the nature of the perceived threat will depend on the OIO. Interpretations about the nature of the threat will shape beliefs about must be done to mitigate the threat. For example, if a firm is primarily concerned with a threat to financial performance, managers are likely to take actions designed to preserve or restore financial performance. On the other hand, if a firm perceives a threat to valued relationships, managers are likely to respond in a way designed to preserve or restore these relationships.

In the case of financial restatements, research has shown that compared to more prominent forms of disclosure, less prominent forms of disclosure lead to less negative market reactions and a lower likelihood of litigation (Swanson et al., 2007; Files et al., 2009). Nonetheless, discreet disclosures are questionable from a regulatory and ethical perspective, and firms may face long-term relational and reputational damage if they are perceived as lacking forthrightness or trying to hide important information from investors (Gertsen et al., 2006). Additionally, theoretical arguments suggest that sharing the relevant facts about a situation (a process referred to as discovery) is an important first step in reintegration with stakeholders after allegations of organizational indiscretions (Pfarrer et al., 2008a). Firms can speed the discovery process by voluntarily disclosing information that will help stakeholders understand what happened, what the consequences may be, and what the organization is doing to rectify the situation. Thus, I predict that firms that are concerned primarily with the financial impact of a restatement will attempt to reduce negative financial and legal repercussions by using less prominent methods when announcing the restatement. Firms that are concerned with preserving relationships and group memberships will use more prominent methods of announcing a restatement in order to speed discovery, signal forthrightness, and rebuild trust.

Hypothesis 1a: Relational and collectivistic organizational identity orientations will be positively related to prominence of restatement announcements.

Hypothesis 1b: Individualistic organizational identity orientation will be negatively related to prominence of restatement announcements.

In addition to having discretion over the level of transparency when filing restatements, managers also have discretion regarding how much information to provide in the initial restatement announcement. Examples of information that firms may or may not disclose when announcing a restatement include predictions about whether the restatement will have a positive or negative impact on revenue numbers, the expected size (in dollars) of the impact of the restatement, the reason for the restatement, and how or by whom the misstatement was discovered (Swanson et al, 2007; Gordon et al., 2010).

Previous research has found that the amount and type of information provided in restatement announcements can impact market reactions to these announcements. Specifically, one study found that overall, inclusion of information about the estimated size (in dollars) of the restatement helped to attenuate negative market reactions to such news (Swanson et al., 2007). This study also found an interaction between prominence of the restatement announcement and inclusion of information about the size of the restatement such that the attenuating effect of this information was greatest when the prominence of the announcement was high (Swanson et al., 2007). Another study predicted that market reactions would be less negative when restatement announcements included quotes from board members. The authors reasoned that such quotes would indicate that the company was taking a proactive stance toward addressing the problems which led to the misstatement, but the empirical results did not support this prediction but indicated a significant negative effect of quotes from directors on market reactions (Gordon et al., 2007). This study also examined the impact of the amount of detail regarding the restatement and market reactions and found that more detail related to less negative market reactions (Gordon et al., 2007). Taken together, these results indicate that investors react less negatively to restatement announcements when managers provide uncertainty reducing information (such as information about the magnitude of the restatement) in the announcement, and this effect is strongest when the prominence of the announcement is high. Nonetheless, the relationship between market reactions and information provision in restatement announcements is still somewhat unclear. Research has shown that restatements due to revenue recognition and those forced by auditors and the SEC are penalized more severely in the equity market (Akhigbe et al., 2005). This suggests that managers may want to avoid disclosing information about the reason or prompting party when they suspect that this information will elicit negative reactions.

Studies regarding the market impact of information in restatement announcements generally reason that while restatements increase uncertainty about the profitability and future prospects of a firm, information provided about the restatement can reduce this uncertainty. Nonetheless, it is clear that certain types of information can lead to more severe penalties for restating firms. In the organizational response literature, it has been theorized that information provision is an important means by which organizations can speed reintegration with stakeholders after an ethical transgression (Pfarrer et al, 2008a). Here, providing information about what happened and what the consequences will be should help to hasten the discovery process and allow stakeholders to assess what steps will be necessary in order for the firm to regain perceptions of legitimacy. Thus, firms which are concerned with rebuilding or maintaining relationships with particular stakeholders or groups should be more motivated to provide information about ethical issues to stakeholders or the public. In the current study, I predict that organizations with relational or collectivistic OIOS will be more concerned with maintaining relationships or group memberships and will, therefore, be more likely to provide more information when announcing restatements.

Hypothesis 2a: Relational and collectivistic organizational identity orientations will be positively related to the amount of information provided in the initial restatement announcement.

Hypothesis 2b: Individualistic organizational identity orientation will be negatively related to the amount of information provided in the initial restatement announcement.

3.2 Commitment to Corporate Social Responsibility

A firm's commitment to social responsibility is the extent to which the firm acts upon values which are consistent with prevailing, societal notions about what constitutes socially beneficial and ethical organizational goals and activities. Such a commitment can be incorporated into a firm's identity and is likely to influence firm behaviors in a variety of domains, including responses to ethical issues. Organizations which are committed to social responsibility are more likely to view events in terms of potential ethical implications and are more likely to exhibit evidence of concern for ethical or moral issues across a variety of domains. Because ethical or social principles play a central role in determining the policies, processes, and programs of such firms, social and ethical concerns should, in general, be more accessible and salient to members of such firms, making it more likely for managers of these firms to view events through an ethical or moral lens. Thus, firms with a commitment to social responsibility are more likely to perceive events such as restatements as serious ethical concerns and are also more likely to be concerned with responding to such events in a manner that is consistent with prevailing societal norms and prescriptions.

Restatements can threaten the ethical image of a firm as well as financial performance, and firms which are committed to social responsibility are likely to be concerned when an issue like a restatement threatens the positive image of the firm. Firms with a commitment to social responsibility will be more likely to focus on the ethical implications of a restatement event and should be more likely to respond in a manner that signals concern for ethicality. Legal interpretations of SEC guidelines indicate that firms who announce restatements in a less prominent way are following the letter, but not the spirit, of SEC regulations and guidelines (Levy, 2011; Myers et al., 2011). This indicates that prominent announcements can be viewed as more ethical than less prominent restatement disclosures. Organizations that are committed to social responsibility are more likely to be concerned with acting in a manner that is consistent with regulatory and ethical standards as well as with societal norms and values – such as transparency and truthfulness.

Research regarding the rebuilding of trust and perceptions of legitimacy after a transgression suggests that the provision of adequate information about what happened is an important first step in rebuilding positive perceptions after an ethical violation (Kim, Dirks, Cooper, & Ferrin, 2006; Pfarrer et al., 2008a). Thus, firms that are committed to social responsibility should be interested in restoring perceptions of legitimacy, trustworthiness, and ethicality and should be likely to share more information about the disclosure in the interest of appearing forthcoming and proactive about addressing the situation. In this study I predict that firms which show evidence of a commitment to social responsibility will make more prominent restatement announcements and include more information in these announcements than firms that do not show evidence of such a commitment.

Hypothesis 3: Commitment to social responsibility will be positively related to the prominence of restatement announcements.

Hypothesis 4: Commitment to social responsibility will be positively related to the amount of information provided in restatement announcements.

3.3 Main Effect of Restatement Magnitude

While the focus of this research is on the impact of organizational characteristics on responses to ethical issues, it is likely that characteristics of the situation at hand also play a role in shaping a firm's response. In the context of this study, it is likely that the magnitude of the restatement, in monetary terms, will play a key role in determining how much information a company feels compelled to share in order to protect and restore relationships with shareholders and other key stakeholders.

The magnitude of a restatement is the overall change in financial position between the initially reported and restated financial reports of the company. Generally restatement magnitude is measured as the net change due to the restatement as a percentage of the firm's revenue, assets, or net income for that period (Palmrose et al., 2004; Wang & Chou, 2011). Restatement size is also frequently reported by companies as the change in earnings per share (EPS) between the initially reported and restated financial reports (e.g., Coldwater, 2006). Restatements vary in size, and larger restatements tend to elicit more negative outcomes (including decreased market value, increased risk of litigation, and executive turnover) than smaller ones (Palmrose et al., 2004; Wang & Chou, 2011). This suggests that the larger the restatement, the stronger the motivation may become to want to avoid these penalties.
Past research also suggests that the provision of adequate explanatory information is a key step in reintegrating with stakeholders after a transgression (Pfarrer et al., 2008) and in mitigating the financial, legal, and regulatory fallout following a restatement (Gertsen *et al*., 2006). Taken together, this suggests that there should be a positive relationship between the magnitude of the restatement and the amount of information provided in the restatement announcement.

> *Hypothesis 5:* There will be a positive relationship between the magnitude of the restatement and the informativeness of the restatement announcement.

3.4 Moderating Effect of Restatement Magnitude

Research suggests that following a restatement, some of the information the company could offer (such as the initiating party, reason for the restatement, and information about pending legal actions) can increase the financial penalties faced by the firm (Palmrose et al., 2004; Akhigbe et al., 2005). Thus, firms which have an individualistic identity orientation or a lack of a commitment to social responsibility may be especially tempted to make less prominent restatement announcements and provide less information about the restatement when the magnitude of the restatement is high. Firms which have a relational or collectivistic orientation will be less likely to expect to benefit from making less prominent and less informative restatement announcements. First, firms with a relational or collectivistic OIO will expect members of other firms and stakeholder groups with which the company has important relationships or affiliations to be monitoring news about the company more closely. For this reason, even less prominent restatement announcements are likely to be noticed by others who have important stakes in the focal firms' operations or outcomes. Second, firms with relational and collectivistic OIOs are more likely to be motivated to disclose information in a forthright and informative manner so that they can move more quickly through the process of rebuilding relationships and regaining trust. As discussed previously, providing clear and thorough information helps to speed discovery so that firms and stakeholders can move on to latter stages of the reintegration process (Pfarrer et al., 2008a). Similarly, firms which are committed to social responsibility and ethicality are likely to feel a moral obligation to provide full disclosure even when facing the need to disclose very bad news (i.e., a high magnitude restatement).

When the magnitude of the restatement is comparatively smaller, managers of firms which lack relational or collectivistic OIOs and those which lack a commitment to social responsibility may believe that the penalties associated with making prominent and informative disclosure announcements are tolerable and may hope to reduce the negative market impact of the restatement by keeping it as quiet as possible. In sum, I expect the positive relationship between the magnitude of the restatement and the prominence and informativeness of the restatement announcement to be stronger for firms which have strong relational or collectivistic OIOs or strong commitments to social responsibility than for firms which are low on these characteristics.

Hypothesis 6a: The positive relationship between the magnitude of the restatement and the prominence of the restatement announcement will be stronger for firms which have strong relational/collectivistic OIOs than for firms which do not.

Hypothesis 6b: The positive relationship between the magnitude of the restatement and the prominence of the restatement announcement will be stronger for firms which demonstrate a strong commitment to social responsibility than for firms which do not.

Hypothesis 7a: The positive relationship between the magnitude of the restatement and the informativeness of the restatement announcement will be stronger for firms which have strong relational/collectivistic OIOs than for firms which do not.

Hypothesis 7b: The positive relationship between the magnitude of the restatement and the informativeness of the restatement announcement will be stronger for firms which demonstrate a strong commitment to social responsibility than for firms which do not.

3.5 Moderating Effect of Regulatory Environment

The restatement events included in this study will be sampled from three time periods which represent distinct regulatory environments. The first time period (pre Sarbanes-Oxley Act) represents a period in which firms had more discretion (compared to the present period) in both whether or not they would issue restatements and how they would handle the filing and announcement of restatements. In 2002 the Sarbanes-Oxley Act (SOX) was passed "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes" (SOX, 2002). The provisions of SOX include requirements to correct material misstatements in financial reports by filing restatements in a timely manner and increased civil and criminal penalties for filing fraudulent or misleading financial reports (SOX, 2002). In order to encourage managers and auditors to correct previously misstated filings, SOX provisions allow for reduced or eliminated penalties for firms which internally initiate restatements. As one would expect, this has led to an increase in the number of restatements initiated by managers since SOX became effective (GAO, 2006; Turner & Weirich, 2006; Wang & Chou, 2011). Thus, SOX created a stronger mandate to issue restatements in a timely manner thereby decreasing discretion over whether or not to restate.

In August of 2004 the SEC issued the Additional Form 8-K Requirements and Acceleration of Filing ruling (SEC, 2004) which states that firms need to file an 8-K (Current Event report) with the SEC within 48 hours of discovering a material misstatement in previously filed financial disclosures. This rule was intended to reduce the incidence of restatements being filed only as amended quarterly or annual reports or simply making the changes to past figures in a regularly scheduled quarterly or annual report (Myers et al., 2011; Turner & Weirich, 2006). One would expect that this ruling would decrease managerial discretion regarding the method by which restatements are filed and the prominence of restatement announcements, but there is some evidence that this effect was not realized. Surprisingly, research suggests that there was actually a surge in the number of stealth restatements in 2005 (Turner & Weirich, 2006). This suggests that some firms are clearly continuing to restate as discreetly as possible.

The SEC ruling issued in 2004 should signal that the "right" way to file a restatement is by filing an 8-K and making this information available and clear to the public by prominently announcing the restatement in a press release. This suggests that companies which are concerned with doing the right thing will be more likely to follow both the spirit and the letter of the 2004 SEC ruling. For this reason, I predict that the positive relationship between commitment to social responsibility and ethicality and prominence of restatement announcements will be stronger in the period after the 2004 SEC ruling than in either the pre-SOX era and the early post-SOX era (prior to the 2004 SEC Ruling regarding 8-K filing). In the pre-SOX era, firms had greater discretion over whether or not to restate. Firms which wanted to hide past misstatements could simply choose not to restate rather than needing to restate as discreetly as possible.

In the early post-SOX era discretion over whether or not to restate was reduced, but firms still had discretion over how to restate. In this period, there may have been ambiguity about what the "right" way to restate would be. It is possible that firms concerned with restating in an ethical manner may have reasoned that a less prominent announcement would protect the interests of investors by limiting the reduction in the market value of the firm. Although the SEC's 8-K ruling in 2004 was intended to create higher consistency in the manner in which restatements are filed, it is clear that managers continue to exercise much discretion in how they handle restatement filings and announcements. Nonetheless, the 2004 ruling should help to reduce ambiguity about which types of restatement announcements are more or less ethical. Firms which are concerned about social responsibility and ethicality now have clear guidance about the best way to handle restatements, thus the impact of commitment to social responsibility and ethicality on the prominence of restatement announcements should be the highest in the late post-SOX period.

Hypothesis 8: The positive relationship between commitment to social responsibility and ethicality and prominence of restatement announcements will be strongest in the period after August 23rd, 2004.

Chapter 4

Method

4.1 Sample

The hypothesized relationships are studied using a sample of restatement events from the Government Accountability Office (GAO) dataset. This dataset includes accounting restatements from 1997 through June 30, 2006. These restatements were identified by researchers for the GAO by searching the Lexis Nexis database for press releases or other media coverage using search terms such as “restate” and “restatement.” Once a restatement was identified, additional information was collected so that the restatement could be classified into one of nine categories. The GAO specifically worked to exclude restatements that were caused by routine accounting issues and instead focused on “…restatements resulting from accounting irregularities, including so-called ‘aggressive’ accounting practices, intentional or unintentional misuse of facts applied to financial statements, oversight or misinterpretation of accounting rules, and fraud.” (GAO, 2003 pg 4).

The initial sample of restatements from the GAO dataset for which KLD data (used to measure commitment to social responsibility) is also available included 300 restatements from 204 companies (several companies had more than one restatement in the dataset). Of these, 67 annual reports could not be coded either because the reports were not available because the company had delayed filing or because the narrative business descriptions did not include any codeable indications of organizational identity orientation. Thus, the sample of restatement events for which OIO data was coded included 233 restatements from 164 companies. The companies whose 10-Ks could not be coded were compared to the companies in the sample in terms of industry, revenue, net income, and number of shareholders, and no significant differences were discovered. The companies in the final sample spanned 40 different 2-digit SIC codes and 96 different 4-digit SIC codes.

4.2 Measures

4.2.1 Organizational Identity Orientation. Organizational identity orientation was coded by analyzing the annual (10-K) reports of the firms in the sample. Coding OIO in 10-K reports involves evaluating the Business Strategy or Overview section as well as the Risk Factors (when provided) portions of the 10-K in order to discover company activities, values, and narrative expressions which reveal the organization's identity orientation. The narrative business description portions of the annual reports in the sample ranged from 1 – 86 pages in length and took between 10 minutes and four hours to code. The number of OIO codes in the useable sample of 10-Ks ranged from 2 to 54. Each annual report was coded by the primary researcher for statements indicating individualistic, relational, and collectivistic identity orientations. Codes were assigned whenever a company used rhetoric indicating one of the identity orientations or whenever the 10-K described activities which would be indicative of any of the three identity orientations. Thus, each 10-K could have multiple codes for one or more of the identity orientations. The aggregate number of codes for each identity orientation was used as the primary measure of identity orientation. This measurement technique is based on the assumption that the more times a company expresses an identity orientation, the more central and important that identity orientation will be in shaping the company's behaviors.

After reading the entire codeable portion of each 10-K, an overall impression of the extent to which that company expressed each of the identity orientations was rated by the primary researcher on a 1-10 scale. Finally, the number of coded statements from the 10-K was counted for each of the identity orientations. The correlations between the number of codes in each 10-K for each of the identity orientations and the overall ratings (on the 1-10 scale) were 0.733 ($p < .01$), 0.769 ($p < .01$), and 0.857 ($p < .01$) for individualistic, relational, and collectivistic identity orientations, respectively. Because the predicted relationships for relational and collectivistic orientations are the same and because collectivistic indicators were rare in this sample, the coded indicators for these two categories were aggregated for analysis. A detailed description of the coding procedure is provided in Appendix A.

In order to assess the reliability of the coding procedure, a sub-sample of 64 10-Ks from the study were coded by a second rater hired for this purpose. The rater was first trained using several annual reports which were not part of the sample. Training was an iterative process which first involved simultaneously coding two annual reports while discussing the reasons for the codes throughout the process. Next both raters (the researcher and the hired rater) coded two annual reports independently, and then compared and discussed the statements each had coded. This process was repeated a second time. Finally, the two raters coded three 10-Ks independently, and the coding of the hired rater was compared to that of the researcher. Agreement was very high throughout this training process, so the rater was then given annual reports from the sample of restating firms to code.

The correlations between the two raters were 0.638 ($p < 0.01$) and 0.670 ($p < 0.01$), respectively, for the individualistic and relational identity orientations based on number of codes for each orientation. An alternate analysis was conducted in which the proportional codes from both raters were compared using a categorical measure of OIO (pure individualistic, hybrid, and pure relational/collectivistic categories using cut-offs of .33 and .66 to define the categories). Using this categorical measure, 64% of the annual reports fell into the same category for each of the two raters. Another three annual reports (4.7%) fell into different categories based on the assigned cut-off point despite being very close in value (e.g., 0.32 vs. 0.3721).

4.2.2 Commitment to Social Responsibility. Commitment to social responsibility was measured using data from the Environment, Social, & Governance (ESG) dataset of Corporate Social Performance (historically and commonly referred to as the Kinder, Lydenberg, & Domini (KLD) dataset) by MSCI – a large provider of analytic data and investment decsision support tools – retrieved through Wharton Research Database Services (WRDS). Use of this data to reflect a commitment to social responsibility is appropriate because corporate social performance has been defined as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (Wood, 1991, pg 693). The KLD ratings are based on the observable outcomes (performance) which are reflective of the company's commitment to social responsibility as embodied in the principles, processes, policies, and programs of the firm. Although there has been some discussion in the literature about the best way to employ the KLD data (e.g., Mattingly & Berman, 2006; Slater & Dixon-Fowler, 2008), the ratings themselves are generally considered to be among the most comprehensive, objective, and valid measures available for studying corporate social responsibility (CSR) (Mattingly & Berman, 2006). For the analyses in this study, CSR was measured as Net CSP (CSP Strengths – CSP Weaknesses). For the sample used in this study, CSP Strengths ranged from 0 – 9 with a mean of 1.71 (SD 1.99); CSP Weaknesses ranged from 0 – 12 with a mean of 2.29 (SD 2.13). Net CSP for this sample ranged from -8 to 7 with a mean of -0.57 (SD 2.50).

From 1991-2000, the KLD dataset includes the MSCI KLD 400 Social Index and the 500 largest US companies for a total of approximately 650 firms per year. During 2001 and 2002 the dataset was expanded to include the top 1000 US companies as well as the MSCI KLD 400 Social Index, and from 2003 to the present the dataset includes the 3000 largest US firms along with the Social Index firms.

4.2.3 Restatement Magnitude and Direction. The magnitude of the restatement represents the monetary impact of the restatement on a firm's financial results. The direction of the restatement indicates whether the impact on financial results was positive or negative. The magnitude of the restatement is measured by dividing the absolute value of the dollar amount of the restatement by the firm's annual net income/loss. Net income for each of the firm years in the sample was gathered from the Compustat dataset using WRDS. It was important to use the absolute value of the restatement in order to prevent negative restatements from being treated, analytically, as smaller values that positive restatements. For firms which were restating multiple periods, the cumulative impact of the restatement is used. Dividing the amount of the restatement by each firm's net income/loss provides a measure of the magnitude of the restatement which is relative to the size and profitability of each firm. This is important because a restatement of $20 million, for example, would have a much greater impact on a company with previously reported net income of $50 million than it would for a firm with net income of $5 billion. Additionally, it was important to measure the magnitude of the restatement in terms of net income rather than revenue for a couple of reasons. First, some restatements impact revenue reporting while others impact cost reporting or other items on a firm's financial statements, but each of these types of restatements ultimately affects the firm's bottom line. Second, it is this impact on net earnings (and in turn earnings per share) which is of most concern to investors. The absolute values of the restatements ranged from $150,000 to $3 billion[3], and annual net income/loss ranged from -$38.468 billion to 10.477 billion. Magnitude of the restatement (as a proportion of net income/loss) ranged from -550.00 to 18.77 with a mean of -3.96 (SD = 47.074). The direction of the restatement was dummy-coded with 0 representing a positive restatement and 1 representing a negative restatement.

4.2.4 Regulatory Environment. The restatements in the GAO dataset cut across three, distinct time periods each being characterized by a different regulatory environment. Restatements from 1997-June 2002 represent the pre-Sarbanes/Oxley era during which managers had relatively higher levels of discretion related to financial reporting compared to the post-Sarbanes/Oxley period. The Sarbanes-Oxley Act of 2002 was passed in the wake of a few large-scale accounting scandals, most notably Enron, and was intended "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes" (Public Law 107-204, 2002 pg 1). The Sarbanes-Oxley Act of 2002 (SOX) included provisions designed to improve auditor independence, increase managerial accountability for financial statements (including increased criminal liability), enhance oversight, and improve financial disclosure quality.

Restatements from July 2002 through July of 2004 represent a period that falls after the passage of SOX but prior to an SEC rule which explicitly requires the filing of an 8-K (Current Event Report) with the SEC in the event of a restatement. This ruling became effective on August 23, 2004, marking the beginning of the third time period in the sample. The time period during which the restatement the restatement was announced will be treated as a moderator for two reasons. First, one would expect effect sizes to decrease as managerial discretion decreases

[3] Those firms which had net restatement values of zero were excluded from analysis.

under the increased regulatory control of the Sarbanes-Oxley Act. Second, for those companies wanting to do the 'right' thing, the SEC ruling requiring an 8-K provides a clear indication that prominent and informative restatement announcements are more ethical than shrouded restatement announcements providing less information.

4.2.5 Prominence of Restatement Announcement. The prominence and informativeness of the restatement announcements were measured by coding the initial press release in which the restatement was mentioned. Press releases were pulled from the Lexis Nexis database. Lexis Nexis was also used by the GAO in compiling its dataset of restatements, thus the dates of the restatement announcements are included in the GAO data. These dates were used to ensure that the initial press release relating to the restatement was used in this analysis. Prominence of the restatement announcement was measured on an ordinal scale distinguishing between five levels of prominence based on where, in the press release the restatement was first mentioned. The five levels were: 1) footnote, 2) end of body, 3) middle of body, 4) beginning of body, and 5) title. The observed values for the prominence of the restatement announcement were negatively skewed with 110 of the 253 firms in the sample mentioning the restatement in the title (skewness = -0.994, SE of skewness = 0.153). For this reason, the measured of prominence was transformed by reflecting and inverting the original values prior to analysis as suggested by Tabachnick and Fiddell (2013).

4.2.6 Informativeness of Restatement Announcement. The informativeness of the restatement announcement was measured by counting the number of pieces of information related to the restatement which were included in the press release. There were ten possible types of information which could be included. The possible pieces of information were: 1) the amount of the restatement, 2) the impact on earnings per share, 3) the direction (+/-) of the restatement, 4) the initiating party, 5) the reason for the restatement, 6) information about remediation efforts by the company, 7) a quote from a board member or top manager related to the restatement, 8) the periods being restated, 9) the impact on debt covenants, and 10) other information related to the restatement. The number of pieces of information provided in the observed data ranged from zero to ten with a mean of 3.86 (SD = 2.42). The values for informativeness of the restatement announcement were normally distributed, so no transformation was necessary.

Chapter 5

Validation Study

Prior to conducting the main study, a small-scale study was conducted in order to test the validity of the annual report-based measure of organizational identity orientation (OIO). For this study, Brickson's (2005) survey measure of organizational identity orientation was administered to 3 – 7 respondents from seven different firms and the previous year's annual report for each of these firms was coded for OIO indicators. Details regarding the coding technique used to assess OIO in company 10-Ks are provided in Appendix A.

The survey was sent to 100 individuals working in 10 different companies. Thirty-three completed surveys were returned for a response rate of 33%. Of these, three responses from individuals in two different firms could not be used because I required a minimum of three responses per company for analysis. Thus, thirty responses (30% response rate) from individuals in seven different companies were retained for analysis. These responses were evaluated using Brickson's coding scheme for OIO. Responses to each item were coded as individualistic, relational, or collectivistic when they used terms or expressed ideas consistent with those represented in Brickson's OIO coding scheme. The responses to some items did not contain information relevant to organizational identity orientation, and these items were not coded. The firms included in this study include three food manufacturers, two trucking/logistics companies, one retailer, and one financial services company. The number of OIO indicative statements in the survey responses ranged from 6 to 19, and the number of OIO indicators coded in the annual reports ranged from 13 to 47. The number of pages coded in the annual reports ranged from 8 to 48.

In order to evaluate the agreement between the survey-based measure and the 10-K measure of OIO, the total number of relational and collectivistic codes in each response were aggregated and then divided by the total number of OIO indicators. Next, the proportion of relational and collectivistic responses to total number of indicators was averaged across the survey respondents and this number was compared to the proportion of relational and collectivistic indicators to total number of indicators in the 10-K. Possible values for this measure ranged from 0 to 1.00 with observed values spanning the full range. The data from the survey responses and 10-K coding from the financial services company are presented in Table 1 for illustrative purposes.

Table 1

Financial Services Company Organizational Identity Orientation Data & Calculations

Source	**Individualistic Codes**	**Relational Codes**	**Collectivistic Codes**	**Relational + Collectivistic**	**Total Codes**	**Rel. + Coll. / Total Codes**
Survey 1	0	7	3	10	10	1.00
Survey 2	2	7	2	9	11	0.82
Survey 3	1	8	4	12	13	0.92
10-K	10	27	10	37	47	0.79

Organizational identity orientation categories were defined using 0.33 and 0.66 cut-offs with values less than 0.33 indicating an individualistic OIO, values between 0.33 and 0.66 indicating a hybrid OIO, and values greater than 0.66 indicating a relational/collectivistic OIO. Based on these cut-offs, five of the seven firms (71.4%) showed agreement between the survey measure of OIO and the 10-K measure. Of the two firms which did not show categorical agreement between the survey measure and the 10-K measure, one of these firms also showed very poor agreement between the 4 survey respondents. For this company, the respondents' values for the proportion of relational/collectivistic indicators to total OIO indicators were 0.00 (purely individualistic), 0.44 (hybrid), 0.67 (borderline hybrid & relational/collectivistic), and 0.75 (relational/collectivistic). Thus, the survey measure of OIO is highly inconclusive for this firm. For the other firm which did not achieve categorical agreement between the survey measure and the 10-K measure of OIO, the average survey score was 0.39 (hybrid) with two of the scores falling below the 0.33 cut-off (0.27 and 0.31) and two falling above this cut-off (0.44 and 0.54) while the 10-K score was 0.08 (individualistic). These data suggest that the employees surveyed experienced the firm as being more relational/collectivistic than was indicated in the 10-K.

It is possible that differences in the organizational identity orientation experienced by employees and that expressed through the company's actions and rhetoric in official documents may indicate that different identity orientations are expressed in different aspects of the organizations. Corley (2004) found that employees tend to experience a company's identity through the culture within the company, whereas managers tend to experience the organization's identity through the strategy of the company. It is possible that a company, or subunits within the company, could have a relational culture even while the company's strategy reflects an individualistic orientation. Because the current research question focuses on understanding companies' responses to issues of strategic importance, it is likely that the identity orientation expressed through the company's strategic actions and rhetoric will be more appropriate predictors than a measure more focused on the culture among employees.

Chapter 6

Analysis and Results

Descriptive statistics and bivariate correlations for the key variables in this study are presented in Table 1. There is a significant positive correlation between codes for relational/collectivistic OIO and codes for individualistic OIO indicating the presence of firms with hybrid identity orientations in the sample. The significant, positive correlation between relational/collectivistic OIO and corporate social performance indicates that firms which take an interdependent stance toward stakeholders may be more likely to engage in positive CSP (or avoid engaging in negative CSP). The significant positive correlation between the magnitude of the restatement and the informativeness of the restatement announcement is consistent with hypothesis 5 which predicted a positive relationship between these two variables. Finally, there is a significant positive correlation between the informativeness of the restatement announcement and the prominence of the restatement announcement indicating that firms which mention the restatement earlier in the press release are likely to provide more information about the restatement than those which mention it later.

Table 1

Means, Standard Deviations, and Bivariate Correlations

	Mean	SD	1	2	3	4	5	6
1. Individualistic OIO	8.310	6.208						
2. Relational/Collectivistic OIO	6.556	7.125	0.319**					
3. Corporate Social Performance	-0.555	2.519	0.163	0.183*				
4. Magnitude of Restatement	-3.963	47.074	-0.087	-0.159	-0.052			
5. Negative Restatement	0.778	0.417	-0.138	0.053	-0.159	-0.043		
6. Prominence of Announcement	0.708	0.299	0.064	0.035	-0.061	-0.073	-0.066	
7. Informativeness of Announcement	5.229	1.730	-0.051	0.063	-0.016	0.227**	-0.038	0.402**

* $\leq$ 0.05; ** $\leq$ 0.01; *** $\leq$ 0.001

Hypotheses were tested using a series of regression analyses. Hypotheses 1a and 1b predicted that a relational/collectivistic OIO would be positively related to the prominence of the restatement announcement while an individualistic OIO would be negatively related to prominence, respectively. In order to test hypothesis 1a, the reflected and inverted prominence of the restatement announcement was regressed on the number of relational plus collectivistic codes. Net CSP was also entered in the model to test hypothesis 3 which predicted that a commitment to corporate social responsibility would be positively related to the prominence of the restatement announcement. The R^2 for this model was non-significant as were the beta coefficients for the variables of interest. In order to test hypothesis 1b, this procedure was repeated regressing prominence of the restatement announcement on individualistic OIO codes and net CSP. Again, neither the R^2 for the model nor the beta coefficients for the variables were significant. Thus, hypotheses 1a, 1b, and 3 failed to find support in these data.

Hypotheses 2a and 2b predicted that a relational/collectivistic OIO would be positively related to the amount of information regarding the restatement provided in the initial restatement announcement, while an individualistic OIO would be negatively related to the informativeness of the restatement announcement, respectively. In order to test hypothesis 2a, the informativeness of the restatement announcement was regressed on the number of relational plus collectivistic codes. Net CSP was also included in the model to test hypothesis 4 which predicted that a commitment to corporate social responsibility would be positively related to the informativeness of the restatement announcement. The R^2 for this model approached significance ($p = 0.054$), and the relationship between relational/collectivistic OIO and informativeness of the restatement announcement was significant ($\beta = .054$, $p < 0.05$).[4] These findings provide support

[4] All regression coefficients reported are unstandardized.

for hypothesis 2a. The relationship between net CSP and informativeness was not significant in this model. In order to test hypothesis 2b, the informativeness of the restatement announcement was regressed on the number of individualistic codes and net CSP. The R^2 for this model was non-significant. Thus, hypothesis 2b and hypothesis 4 failed to find support in these data. Results for hypotheses 2a & b, 3, and 4 are summarized in Table 2.

Table 2

Main Effects on Informativeness of Restatement Announcement

	Model 1	**Model 2**
Constant	3.520***	3.840***
Corporate Social Performance	-0.028	
Relational/Collectivistic OIO	0.054*	
Corporate Social Performance		0.059
Individualistic OIO		0.023
Model ΔR^2	0.021	0.007
F Change	2.944	0.816
F Change Significance	0.054†	0.444

† $\leq$ 0.10; * $\leq$ 0.05; ** $\leq$ 0.01; *** $\leq$ 0.001

Hypothesis 5 predicts a positive main effect of magnitude on the informativeness of the restatement announcement. Results provide support for this hypothesis. First, there is a statistically significant bivariate correlation between magnitude of the restatement and the informativeness of the announcement (0.227, $p < 0.01$). Additionally, in the full regression model, including main effects as well as interaction terms, the beta coefficient for the main effect of the magnitude of the restatement is positive and statistically significant ($\beta = 0.209$, $p < 0.05$). Thus, although the interaction effects, discussed next, indicate that the severity of the situation impacts some firms' responses more than others, there is evidence that, in general, the magnitude of a restatement relates positively to the amount of information firms share in the initial restatement announcement.

Hypothesis 6a predicts an interaction between the magnitude of the restatement and a relational/collectivistic OIO such that the positive relationship between a relational/collectivistic OIO and the prominence of the restatement announcement will become more pronounced as the magnitude of the restatement increases. Hypothesis 6b predicts a similar interaction between commitment to social responsibility and magnitude of the restatement such that the positive relationship between CSP and the prominence of the restatement announcement will become more pronounced as the magnitude of the restatement increases. Neither of these hypotheses were supported. Results of the regression analyses are presented in Table 3.

Table 3

Interaction Effects on Prominence of Restatement Announcement

	Model 1	**Model 2**
Constant	4.504***	4.466***
Corporate Social Performance	-0.024	-0.023
Relational/Collectivistic OIO	0.010	0.011
Magnitude of Restatement	-0.019	0.185
Negative Restatement	-0.303	-0.297
CSP X Magnitude		-0.003
Rel/Coll OIO X Magnitude		0.031
Model R^2	0.025	0.034
F	0.349	0.309
Model Significance	0.843	0.929
Model ΔR^2		0.009
F Change		0.249
F Change Significance		0.780

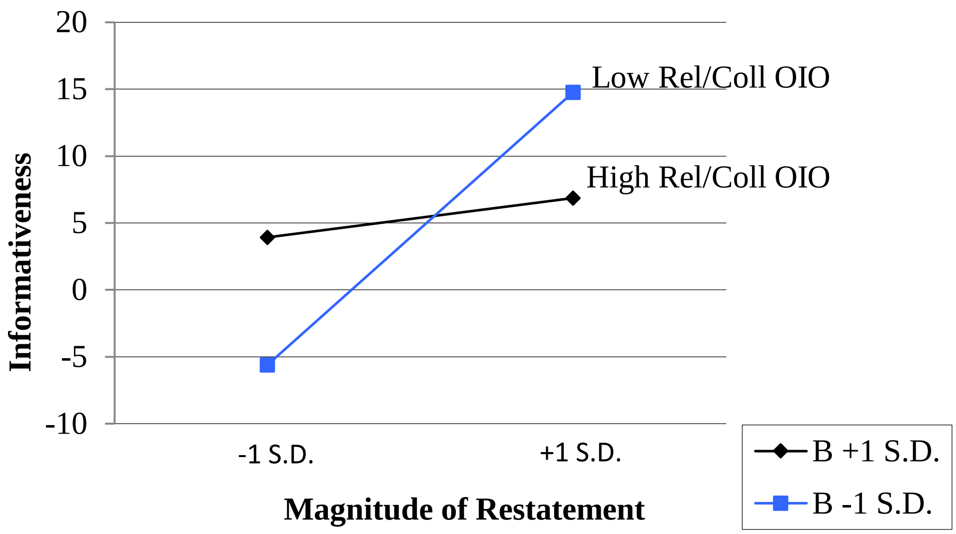
† $\leq$ 0.10; * $\leq$ 0.05; ** $\leq$ 0.01; *** $\leq$ 0.001

Hypothesis 7a predicts an interaction between the magnitude of the restatement and a relational/collectivistic OIO such that the positive relationship between the magnitude of the restatement and the informativeness of the restatement announcement will be more pronounced for firms with strong relational/collectivistic OIOs. This hypothesis was tested using hierarchical regression in which net CSP, relational/collectivistic OIO codes, the magnitude of the restatement, and a dummy code for whether or not the restatement was negative were entered in the first step ($R^2 = .061$, F Sig. = 0.09). The interaction terms for magnitude of the restatement X relational;/collectivistic OIO (hypothesis 6a) and magnitude of the restatement X net CSP (hypothesis 6b) were entered in the second step ($R^2 = 0.10$, F Sig. = 0.038). Regression results indicate that there is a significant main effect of the magnitude of the restatement ($\beta = 0.21$, $p < 0.05$) as well as a significant interaction between a relational/collectivistic OIO and the magnitude of the restatement ($\beta = -0.01$, $p < 0.05$) in predicting the informativeness of the restatement announcement. Although this interaction is significant, it is in the opposite direction as predicted. For firms which are high on relational/collectivistic OIO, the relationship between the magnitude of the restatement and the informativeness of the restatement announcement is only slightly positive, yet for companies which are low on relational/collectivistic OIO, this relationship is quite positive. Thus, hypothesis 7a is not supported, and results are contrary to those expected. This interaction is plotted in Figure 1.

Hypothesis 7b predicts an interaction between the magnitude of the restatement and commitment to social responsibility such that the positive relationship between commitment to social responsibility and the informativeness of the restatement announcement will become more pronounced as the magnitude of the restatement increases. Regression results show a marginally significant interaction between net CSP and magnitude of the restatement ($\beta = 0.03$, $p = 0.061$)

Figure 1

Interaction Plot: Restatement Magnitude X Relational/Collectivistic OIO



which is in the direction predicted, providing some support for hypothesis 7b. While the relationship between magnitude of the restatement and informativeness of the restatement announcement is positive for firms which are both low and high on CSP, this positive relationship is stronger for those firms which are high on CSP than for those which are low. The regression results for hypotheses 7a and 7b are summarized in Table 4, and this interaction is depicted in Figure 2.

Hypothesis 8 predicted that the positive relationship between a commitment to social responsibility and the prominence of the restatement announcement would be strongest in the period after the SEC 8-K rule (the late post-SOX period). This hypothesis was not supported. There was no relationship observed between net CSP and the prominence of the restatement announcement in either the overall sample or the subsamples from any of the three time periods examined in this study.

Table 4

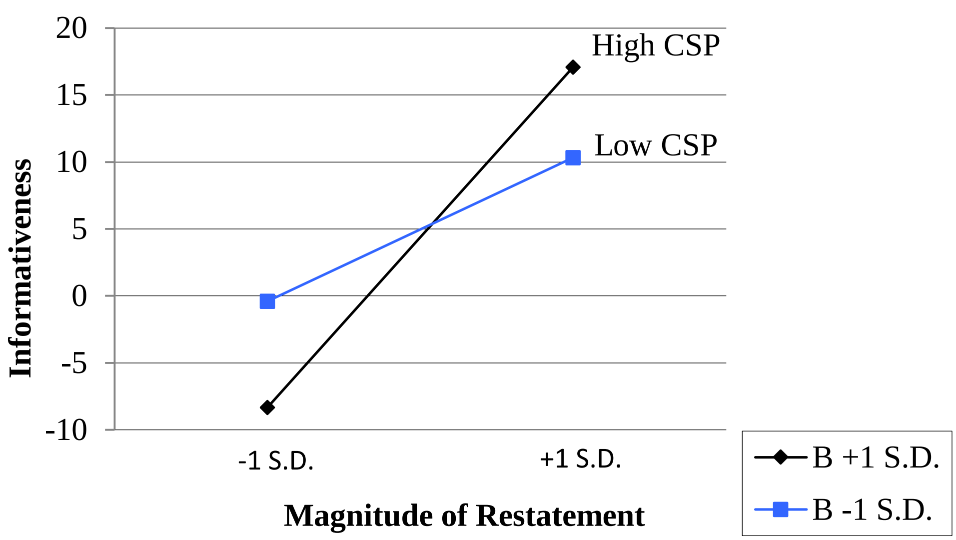
Interaction Effects on Informativeness of Restatement Announcement

	Model 1	**Model 2**
Constant	5.249***	5.430***
Corporate Social Performance	-0.037	-0.006
Relational/Collectivistic OIO	0.015	0.006
Magnitude of Restatement	-0.008**	0.209*
Negative Restatement	-0.253	-0.414
CSP X Magnitude		0.031†
Rel/Coll OIO X Magnitude		-0.013*
Model R^2	0.061	0.100
F	2.057	2.305
Model Significance	0.09†	0.038*
Model ΔR^2		0.039
F Change		2.689
F Change Significance		0.072†

† $\leq$ 0.10; * $\leq$ 0.05; ** $\leq$ 0.01; *** $\leq$ 0.001

Figure 2

Interaction Plot: Restatement Magnitude X Corporate Social Performance



Chapter 7

Discussion

This study was designed to explore the relationship between organizational characteristics on initial responses to ethical issues. Specifically, this study examines the impact of organizational identity orientation and commitment to social responsibility on the prominence and informativeness of restatement announcements. Results of the study suggest that organizational characteristics do influence the amount of information a company is willing to share following a transgression such as a financial restatement. Specifically, this study found some evidence of a positive relationship between a relational/collectivistic organizational identity orientation and the informativeness of the restatement announcement. Additionally, this study finds significant interaction effects between the magnitude of the restatement and both OIO and commitment to social responsibility in predicting the informativeness of the restatement announcement. None of the variables in this study predicted the prominence of the restatement announcement. In this section I discuss the findings from this study, describe practical and theoretical implications, and discuss the limitations of this study as well as directions for future research.

Across all firms in the sample there is a significant positive relationship between a relational/collectivistic identity orientation and the informativeness of the restatement announcement. This suggests that companies which derive important parts of their organizational identity from relationships with stakeholder groups or memberships in collective groups tend to be more forthcoming with information following a restatement. This finding is in line with theories (e.g., Pfarrer et al., 2008) which suggest that the provision of information following an organizational transgression is an important step in repairing relationships and reintegrating with stakeholders. Based on this theoretical rationale, one would expect organizations which care about relationships to be more willing to divulge information following a transgression in order to protect and restore those relationships. Data from this study suggest that, in the case of restatements, there is a positive relationship between the extent to which a company derives its organizational identity from relationships with stakeholders or groups and the amount of information the company discloses regarding this transgression.

It is important to note that the significant, positive relationship between relational/collectivistic OIO and the informativeness of the restatement announcement is not robust across alternate ways of analyzing this relationship. For example, this relationship is not significant when individualistic OIO is entered at same time as relational/collectivistic OIO. The failure to detect this relationship when both types of OIO are entered simultaneously is likely due to the fact that the OIO categories were not mutually exclusive – meaning that a company could be high on both, low on both or high on one and low on the other. In fact, there is a significant positive correlation between individualistic and relational/collectivistic codes (0.319, $p < 0.01$) and 33.7% of the firms are classified as having hybrid OIOs based on the .33 and .66 categorical cut-off points. The main effect of relational/collectivistic OIO is also not significant in the regression models controlling for the magnitude and direction of the restatement and testing the interaction between OIO and magnitude of restatement. Failure to find the main effect here is not surprising given the significant main effect of restatement magnitude as well as the significant interaction effect between OIO and magnitude.

Results of this study provide evidence that characteristics of an ethical issue interact with characteristics of the company to predict responses to the issue at hand. Specifically, in this study both organizational identity orientation and commitment to social responsibility interacted with the magnitude of the restatement to predict the informativeness of the restatement announcement. Overall, the general trend is for restatement announcements to become more informative as the magnitude of the restatement increases. This main effect is significant when entered in Model 1 with other main effects and remains significant ($p < 0.05$) even when the interaction effects are also included in Model 2. As predicted, the positive relationship between magnitude of the restatement and informativeness of the announcement is stronger for companies that rate high on corporate social performance than for those companies that rate low on CSP. This suggests that companies which have demonstrated a commitment to corporate social responsibility are more likely to tailor their response based on specifics of the situation when facing an ethical issue. In this study, firms which rated higher on CSP provided more information when the magnitude of the transgression (in this case a financial restatement) was greater. While the relationship between magnitude of the restatement and informativeness was also positive for firms which rated low on CSP, the effect was not as strong as that for firms which rated high on CSP.

The interaction between the magnitude of the restatement and a relational/collectivistic organizational identity orientation is significant but in the opposite direction as hypothesized. It was predicted that firms which had stronger relational/collectivistic identity orientations would display a stronger positive relationship between the magnitude of the restatement and the informativeness of the restatement announcement than would firms which were low on relational/collectivistic OIO. Contrary to this prediction, results show that for firms which rate high on relational/collectivistic identity orientation, the relationship between magnitude of the restatement and informativeness of the announcement is almost flat, whereas for firms which are low on relational/collectivistic OIO, there is a strong positive relationship between magnitude of the restatement and informativeness of the announcement. This could suggest that for firms which have stronger relational/collectivistic identity orientations the need to provide information regarding a financial restatement is based on principle and is not impacted much by the size of the restatement itself. For firms which are low on relational/collectivistic OIO, the amount of information provided regarding a restatement appears to be highly influenced by the magnitude of the restatement. This finding appears to be consistent with the idea that firms which do not have relational or collectivistic OIOs are more likely to view a restatement as a financial threat; thus, these companies are more likely to tailor their responses to the magnitude of that threat.

It is interesting, and somewhat perplexing, that the interaction between the magnitude of the restatement and relational/collectivistic OIO and the interaction between magnitude and commitment to social responsibility act in opposite directions. It was predicted that a relational/collectivistic OIO and a commitment to social responsibility would similarly impact a company's willingness to share information regarding a financial restatement since both can be viewed as indicators of a company's concern for the interests of stakeholders. Interestingly, CSP and relational/collectivistic interacted with the magnitude of the restatement in opposite directions in predicting the informativeness of the restatement announcement. While it is not possible to make direct inferences as to the reason for this difference based on the data in this study, it is widely accepted that the KLD ratings used in this study as an indicator of companies' commitments to social responsibility cannot differentiate between those companies engaging in CSP for ideological versus instrumental reasons. The results of this study further demonstrate that companies which engage in positive CSR practices may not respond to ethical issues in the same way as companies which incorporate stakeholder relationships and group memberships into their organizational identities.

A post-hoc analysis was conducted adding net profit margin (Net Income/Revenue) as a variable in the second step of the regression analysis predicting the informativeness of the restatement announcement. This analysis was conducted in order to test whether firms which had more slack in their cost-revenue structure would be more willing to divulge information regarding a restatement. One could imagine that firms which have are on more solid ground financially, i.e. those with higher net profit margins, might be better able to withstand both the financial and market impacts of a restatement and thus, may be more willing to divulge information related to the restatement. The results of this analysis failed to find a significant relationship between a firm's net profit margin and the informativeness of the restatement, however the previously reported results relating to the study's variables of interest remained robust with this variable added to the model. Results of this post-hoc analysis are summarized in Table 5.

Finally it is important to note that none of the predictor variables in this study were found to relate to the prominence of the restatement announcement. Although not specifically hypothesized, it is perhaps most surprising that even the magnitude of the restatement did not demonstrate a relationship with the prominence of the announcement. Additionally, none of the variables of interest in this study predicted the prominence of the restatement announcement. It is possible that prominence may be influenced by factors outside of the scope of this study – such as the timing of the restatement announcement. That is, prominence may be lower when the restatement occurs at the same time as some other headline-worthy event such as the reporting of quarterly earnings or a change in organizational leadership. In cases in which the restatement was not announced in the title of the press release, the titles often focused on earnings announcements, changes in management, or other news-worthy events such as acquisitions or divestitures.

Table 5

Post-hoc Regression Analysis: Informativeness of Restatement Announcement

	Model 1	**Model 2**
Constant	5.249***	5.414***
Corporate Social Performance	-0.037	-0.016
Relational/Collectivistic OIO	0.015	0.010
Magnitude of Restatement	-0.008**	0.205*
Negative Restatement	-0.253	-0.439
CSP X Magnitude		0.030†
Rel/Coll OIO X Magnitude		-0.013*
Net Profit Margin		0.398
Model R^2	0.061	0.103
F	2.057	2.039
Model Significance	0.09†	0.055†
Model ΔR^2		0.042
F Change		1.954
F Change Significance		0.124

† $\leq$ 0.10; * $\leq$ 0.05; ** $\leq$ 0.01; *** $\leq$ 0.001

8.1 Implications

The results of this study have important implications for managers, stakeholders, and researchers. This section describes the implications of these findings for managers, investors and other stakeholders, and researchers.

8.1.1 Managerial Implications. Results of this study suggest that an organization's identity orientation can influence its responses to ethical issues and can further interact with situational factors (i.e., magnitude) to further impact responses to these issues. Results also provide some evidence that a company's past social performance also interacts with situational factors to influence responses to ethical issues. Both research and anecdotal evidence suggest that organizational responses to ethical issues can have an important impact on managers' reputations and careers (e.g., Brocato, Peterson, & Crittenden, 2012; Time, 2010). Thus, managers have an important stake in understanding factors that influence organizational responses to ethical issues.

Although the current study does not explore the link between the informativeness of a restatement announcement and post-restatement perceptions of the firm or its managers, previous research suggests that providing information is a key first step in re-integrating with stakeholders following a transgression (Pfarrer et al., 2008). For this reason, managers should be particularly interested in understanding factors that could impact their firm's willingness to share information following an ethical transgression. Managers wishing to speed their firm's reintegration with stakeholders and to protect their own reputations should be interested in understanding the role that organizational characteristics play in influencing the informativeness of a company's response to an ethical issue (in this case a restatement). By understanding these factors, managers can either seek to make change their organization's identity orientation or commitment to social responsibility or to find ways to generate responses to ethical issues which overcome the dysfunctional influences these characteristics may have on a response to an ethical issue.

While managers can influence a company's identity orientation and corporate social performance, it is likely that such efforts would take many years to translate into meaningful changes in these organizational characteristics. Thus, it may be more practical for managers to apply the techniques used in this study to gain insight into their company's identity orientation in order to become aware of predispositions their company may have in responding to ethical issues. For instance, a manager whose company has an individualistic identity orientation may realize that the company will be likely to share very little information following a minor transgression. This manager may wish to implement practices that will insure greater sharing of information following minor transgressions in order to make sure that the transgression is resolved quickly and does not snowball into a larger problem.

8.1.2 Stakeholder Implications. While this study provides some insight and guidance for managers, the implications for investors and other stakeholders may be even more important. When organizational ethical issues arise, managers are likely to have access to inside information about the situation, while investors' and other external stakeholders' access to information is largely at the mercy of managers. Thus, investors, analysts, regulators, and other stakeholders are likely to be quite interested in understanding factors which may predict which organizations are more or less likely to share information about ethical issues and under what circumstances. Furthermore, this study suggests that archival data can be used to gain insight into some of the characteristics which may influence a company's willingness to share information following an ethical transgression. This means that external parties, such as regulators and analysts, can use publicly available documents to gain insight into factors which may indicate which companies are more or less likely to be forthcoming with information related to an ethical issue.

Analysts and investors are likely to want to know which companies will be more or less forthcoming with information related to a restatement because such information can help them assess the impact of the restatement on the firm's current and future financial position and understand the reasons behind the restatement. The more information a company provides about a restatement, the better able analysts and investors will be at determining the appropriate response to the news. Additionally, some evidence suggests that firms which provide more information immediately following a restatement may be able to limit reputational damage and reduce the overall negative impact of the restatement (Akhigbe et al., 2005; Gertsen et al., 2006). By understanding which firms may be predisposed to provide more or less information under various circumstances, regulators, analysts, and investors may be better able to direct their monitoring efforts and energy toward those firms which are less likely to be forthcoming with information following a restatement. In particular, these stakeholders may wish to invest more energy in monitoring the activities and financial statements of companies which have poor records of social performance and which do not show evidence of a relational or collectivistic organizational identity orientation. Research has shown that evidence of earnings manipulation can often be discovered long before companies announce a formal restatement (Ettredge et al., 2010). Thus, such monitoring may expose problems well before the company announces a formal restatement. Results of the current research may be useful to those seeking to determine the best allocation of their limited monitoring resources.

8.1.3 Theoretical Implications. This study provides initial evidence that organizational characteristics can indeed influence responses to ethical issues. Previous research has focused primarily on situational factors (i.e., characteristics of the ethical issue itself) as predictors of organizational responses to ethical issues (e.g., Coombs, 1998; Garrett et al., 1989) and stakeholder reactions to these responses (e.g., Bradford & Garrett, 1995; Marcus & Goodman, 1991). This research has provided valuable information for managers seeking to manage ethical issues and crises, but has not provided insight into whether certain organizations might be predisposed to certain types of responses. The results of this study suggest that some organizations may be predisposed to offering more or less information when faced with an ethical issue (in this case a restatement). These findings suggest that future research into how organizational characteristics relate to responses to ethical issues could aid our understanding of why organizations respond the way they do in the wake of an ethical issue as well as allow us to predict how a particular organization would be likely to respond to an ethical issue. Such research will also allow managers to understand the predispositions their organizations may have in responding to ethical issues and to design processes which will help their company avoid making a response which could further damage the company's credibility, reputation, or performance.

This study also extends the literature regarding organizational identity orientation by developing a measure of OIO which can be applied to a wide variety of firms and by providing evidence that OIO can, in fact, impact organizational responses to ethical issues. Previous research has suggested that aspects of organizational identity will impact many facets of organizational activity but few studies have been able to test these assertions. The measure of OIO developed for this study applies qualitative textual analysis to archival documents and may open the door to a variety of research treating OIO as an outcome, an antecedent, or even a moderating variable. The ability to measure organizational identity orientation through archival documents is particularly useful because it is an aspect of organizational identity which can be compared across firms of various sizes and structures from a variety of industries.

The data from this study also extends research related to OIO by demonstrating that there is variance in identity orientation among publicly-traded, for-profit organizations. While it was relatively uncommon to find evidence of a collectivistic identity orientation among the firms sampled in this study, there was strong representation of individualistic, relational, and hybrid organizational identity orientations. Because organizational identity orientation can be measured among firms across various industries, demonstrates variance within a sample of publicly-traded firms, and represents a fundamental and important aspect or organizational identity, it is likely that this construct could be applied in studying a variety of compelling research questions about the causes and consequences of organizational identity.

8.2 Limitations and Future Research Directions

While this study makes valuable contributions to the literatures related to ethical issues management, organizational identity, and corporate social responsibility it, of course, also has a number of limitations. In this section, I discuss some of the key limitations of the current study and describe some opportunities for future research.

One of the key limitations is that, while the study was designed to study organizational information-sharing regarding ethical issues, the empirical study only examines one type of ethical issue – financial restatements. The restatement context provides some key benefits, such as the ability to objectively compare the magnitude (i.e., severity) of the ethical issue and a consistent forum through which companies provided their initial responses to the issues (i.e., a press release announcing the restatement). Nonetheless, it remains unclear whether or not organizational identity orientation and corporate social responsibility will influence corporate responses to other types of ethical issues in ways similar to those observed in this study. Future research could explore the impact of OIO, CSP, or other organizational characteristics in influencing responses to other types of ethical issues – such as recalls due to product safety concerns, environmental issues, or allegations of bribery. Of course, each type of ethical issue involves its own unique benefits and challenges to researchers. Nonetheless, much can be gained by studying the impact of organizational characteristics on responses to various types of ethical issues. Previously, some interesting research has studied the impact of firms' technical and ceremonial actions and industry effects on media coverage and stakeholder perceptions following toy recalls (Zavyalova, Pfarrer, Reger, & Shapiro, 2012). Thus, it seems possible that researchers could explore whether or not organizational characteristics (such as OIO or CSP) systematically influence the technical or ceremonial actions of firms following a recall.

A second limitation of this research is that the validation study of the measure of OIO was relatively small in scope and did not include enough respondents (at either the organizational or individual level) to allow statistical testing of the consistency between the survey measure and the 10-K coding technique. An expanded validation study involving more organizations and more respondents from each organization would help to further validate the usefulness of this coding method as a means of measuring organizational identity orientation for use in future studies. Further evidence of the validity of the 10-K-based measure of OIO could be established by testing the relationship between the measure and outcomes which are theoretically more proximate to OIO. For example, Brickson (2007) proposes that firms with different types of identity orientations will manage relationships with internal and external stakeholders differently. For example, Brickson (2007) postulates that psychological contracts within individualistic organizations will be primarily transactional while those within relational and collectivistic organizations will be relational and ideological, respectively. Thus, testing the relationship between OIO and some of the variables Brickson suggests (such as the means by which customer relationships are managed and the nature of psychological contracts with employees) using the 10-K measure of OIO could provide evidence of the predictive validity of the measure.

Finally, while the coding scheme developed here provides opportunities for researchers and others wishing to study OIO using archival data sources, the coding process itself is extremely time-consuming. Thus, a highly practical next step in aiding future research related to organizational identity orientation would be to use the coding technique developed here as a starting point for developing a dictionary of terms to be used in the development of a computer-aided textual analysis (CATA) measure of OIO. Automating the OIO coding process using CATA would allow researchers, managers, and analysts to efficiently measure OIO across numerous firms. Due to the advantages of studying OIO described earlier, a CATA-based measure of OIO could facilitate the study of numerous research questions about the causes and consequences of OIO.

This study represents a first attempt to understand the impact of organizational characteristics on responses to ethical issues. Thus, the scope of organizational characteristics which could be considered in a single study is limited. While organizational identity orientation and corporate social performance are theoretically sensible starting points in this stream of research, there are likely numerous other organizational characteristics which will influence companies' responses to ethical issues. For example, in the case of restatements, it is possible that a company's relationships with investors could play a key role in influencing restatement announcements. Specifically, past research has found that institutional investors can influence firm behaviors and that dedicated versus transient institutional investors may lead managers top adopt a long or short-term focus, respectively (Bushee, 2001; Connelly, Tihanyi, Certo, & Hitt, 2010). Based on rationale similar to that used in this study, one might expect a restating company with dedicated institutional investors to be more concerned with maintaining its relationship with that investor and therefore, be more forthcoming with information about the restatement. A firm with more transient institutional investors may be more likely to be concerned with short-term damage to share price (both due to the restatement and possible loss of the institutional investor) and thus be less likely to divulge information about the restatement. It is also possible that any firm with substantial investments from institutional investors (transient or dedicated) might recognize that analysts working on behalf of these investors are likely to demand any omitted information regarding a restatement, and may therefore be more forthcoming with information in the initial restatement announcement.

Moving away from the restatement context, it is likely that there are other organizational characteristics which might influence responses to ethical issues. For example, companies in more heavily regulated industries may be particularly worried about legal repercussions making them less likely to admit wrongdoing and offer apologia and concessions initially following an ethical allegation. Furthermore, such companies may be more likely to use legalistic rhetoric and technical explanations (Elsbach, 1994) than companies in less regulated industries. Upper echelons theory would suggest that characteristics of the top-management-team (TMT) might also play a role in shaping responses to organizational ethical issues. For instance, firms with TMTs comprised largely of individuals with legal, financial, or operational backgrounds might be more likely to use denials and technical/legalistic rhetoric in responding to an ethical issue whereas firms with TMT members with experience in marketing or public relations might be more likely to favor the provision of information and apologia.

It is also possible that CEOs (as the strategic leaders of their firms) might play an important role in shaping responses to ethical issues. Thus, it is possible that CEO characteristics might influence responses to ethical issues. For instance, empirical evidence suggests a positive correlation between corporate environmental performance and having a CEO who holds an MBA degree (Slater & Dixon-Fowler, 2010). Thus, it is possible that firms with CEOs having MBA degrees might respond more quickly and be more likely to offer concessions following an environmental issue.

Finally, the GAO restatement dataset used for this study has some limitations. Specifically, it does not include restatements occurring after June 26, 2006 and it contains relatively limited information about each restatement event. Due to the limitations of the GAO dataset, many researchers studying restatements now prefer the Audit Analytics Non-Reliance Restatement dataset (e.g., Ettredge, et al., 2010; Huang & Scholz, 2012). The Audit Analytics dataset is updated annually and provides information about each restatement, such as the specific reason for the restatement, information about auditors, auditor letters, information about any related SEC investigation, and information about the company (such as industry and financial results) that is not available in the GAO dataset. Thus, more nuanced research regarding responses to specific types of restatements could be conducted using the Audit Analytics database. Future research exploring the relationships between organizational characteristics and restatement announcements should sample from the Audit Analytics Non-Reliance Restatement database.

8.3 Conclusion

This study provides initial evidence that organizational characteristics influence firms' responses to ethical issues and also provides evidence that aspects of organizational identity can influence firm behavior in the wake of an ethical issue – in this case a financial restatement. While previous research has focused on exploring the impact of situational factors on responses to ethical issues, evidence from this study suggests that organizational characteristics such as OIO and situational factors such as the magnitude of the ethical issue (i.e., the restatement) as well as interactions between organizational and situational factors all help to explain variance in the amount of information a company provides in the wake of an ethical issue. Recognizing which organizations may be predisposed to divulge more or less information about an ethical issue under various circumstances can provide valuable insights for managers, stakeholders, and researchers. Future research should further explore the influence of organizational characteristics on responses to ethical issues. Additionally, the measure of organizational identity orientation developed for this study could be used to explore factors that shape a firm's identity orientation as well as the impact of OIO on a variety of firm behaviors and outcomes.

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Appendix A

Research Compliance Documentation

May 9, 2012

MEMORANDUM

TO:	Amy Guerber Vikas Anand
FROM:	Ro Windwalker IRB Coordinator
RE:	New Protocol Approval
IRB Protocol #:	12-05-679
Protocol Title:	*Organization*
Review Type:	☒ EXEMPT ☐ EXPEDITED ☐ FULL IRB
Approved Project Period:	Start Date: 05/09/2012 Expiration Date: 05/08/2013

Your protocol has been approved by the IRB. Protocols are approved for a maximum period of one year. If you wish to continue the project past the approved project period (see above), you must submit a request, using the form *Continuing Review for IRB Approved Projects*, prior to the expiration date. This form is available from the IRB Coordinator or on the Research Compliance website (http://vpred.uark.edu/210.php). As a courtesy, you will be sent a reminder two months in advance of that date. However, failure to receive a reminder does not negate your obligation to make the request in sufficient time for review and approval. Federal regulations prohibit retroactive approval of continuation. Failure to receive approval to continue the project prior to the expiration date will result in Termination of the protocol approval. The IRB Coordinator can give you guidance on submission times.

This protocol has been approved for 150 participants. If you wish to make *any* modifications in the approved protocol, including enrolling more than this number, you must seek approval *prior to* implementing those changes. All modifications should be requested in writing (email is acceptable) and must provide sufficient detail to assess the impact of the change.

If you have questions or need any assistance from the IRB, please contact me at 210 Administration Building, 5-2208, or irb@uark.edu.

Appendix B

10-K Coding Manual

Coding Organizational Identity Orientation in 10-K Reports

Organizational identity orientation (OIO) is defined as "the nature of assumed relationships between an organization and its stakeholders" (Brickson, 2005)
Stakeholders can include organizations, groups, and individuals with whom the organization interacts (such as buyers, suppliers, competitors, partners, investors, employees, and regulators) as well as the broader community/society and the natural environment.

OIO can take 3 forms:

<u>Individualistic</u> – the organization defines itself in terms of its own distinguishing characteristics; a company with an individualistic OIO views stakeholders as being separate from the company and tends to view stakeholders in instrumental or even adversarial terms; performance is measured and described primarily by comparisons to previous self-performance or performance goals

<u>Relational</u> – the organization defines itself primarily in terms of its relationships with particular others; a company with a relational OIO views stakeholders as partners and tends to view relationships with stakeholders in terms of mutual benefits

<u>Collectivistic</u> – the organization defines itself in terms of membership in a group or network of organizations or as part of a community

Become familiar with the codebook developed by Brickson for use with her survey measure of OIO. This will provide understanding of some key terms and concepts that can be coded as expressive of each OIO. This codebook also provides an overall idea of what attitudes, values, and activities are reflective of each OIO.

The purpose of a 10-K report is to provide investors and potential investors with an understanding of the company, its operations, performance results, and information that will help to access the future prospects of the company. For this reason, 10-K reports will necessarily have information about the individual firm, so it is important to understand what aspects of the 10-K report can be examined to determine differences in OIO.

Organizational identity orientation (OIO) revealing statements can be found in the first section of the annual report (generally titled Business Strategy or Overview), in the Risk Factors section, and sometimes in the Managerial Discussion & Analysis (MD&A). Currently, these sections are labeled Items 1, 1A, and 7, respectively. In older 10-K reports, Risk Factors did not always have a separate heading in the table of contents; instead risk factors were usually included in either the Business Strategy/Overview section or the MD&A. It is important to locate and attempt to code the risk factors for OIO in each 10-K report.

Do not focus on coding reporting related to international operations

It is often easier to see differences in OIO by comparing 10-Ks from firms in similar industries rather than by reading just one 10-K in isolation

Individualistic

Bold, boastful statements – particularly when these statements explicitly or implicitly involve a comparison with other firms or competitors; key words such as leader, leading, top, best known – these words all imply a comparison with other firms.

Example: *"[we] are one of the world's largest meat protein companies and the second-largest food production company in the Fortune 500 with one of the most recognized brands in the food industry."*

Example: *"[Name of company] is one of North America's leading food companies, with consumer brands in 97% of America's households…"*

Somewhat individualistic example: *"We are a leading global food and beverage company with hundreds of brands that are respected household names throughout the world."*

In the examples above, the first two are more individualistic than the third because of details such as using the word "one" in conjunction with "leading" and very specific statements about a fact that sets it apart from competitors ("brands in 97% of America's households" "second-largest food production company in the *Fortune* 500") as opposed to a more general statement which other competitors would also be able to make ("brands that are respected household names throughout the world").

Strategic management of business:
Acquisitions & divestitures – common business practice, portfolio management efforts such as acquisitions and divestitures are motivated by instrumental/individualistic concerns (rather than concerns for needs of other stakeholders

Example: *"From time to time, we evaluate acquisition candidates that may strategically fit our business objectives. If we are unable to complete acquisitions or to successfully integrate and* *develop acquired businesses, our financial results could be materially and adversely affected. In addition, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets. We may not be able to complete desired or proposed divestitures on terms favorable to us. Gains or losses on the sales of, or lost operating income from, those businesses may affect our profitability. Moreover, we may incur asset impairment charges related to acquisitions or divestitures that reduce our profitability."* – from Risk Factors section of 10-K

Restructuring – particularly if restructuring activities are motivated by instrumental concerns such as profitability or efficiency; little or no evidence of concern for relationships which will be lost due to restructuring activities

Example: *"The Network Optimization Plan consists of projects that involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize our distribution network. Implementation of the plan is expected to continue through fiscal 2013 and is intended to improve the efficiency of our manufacturing operations and reduce costs."*

Equity investments – if strategic alliances are presented as "equity investments" or mainly discussed in terms of ownership position (e.g., percent of interest/equity owned) of a business venture or project or in terms of how profits or expenses are divided, this would be coded as individualistic – this is because these types of relationships are more typically discussed as partnerships, alliances, or in terms of the goals and mutual benefits expected or hoped for from these relationships

Example: *"Also during fiscal 2009, we acquired a 49.99% interest in [XYZ, LLC], a potato processing joint venture with [ABC, Inc.]. This venture is considered a variable interest entity for which we are the primary beneficiary and is consolidated in our financial statements."*
Example: *"We have a number of unconsolidated equity investments. Significant affiliates produce and market potato products for retail and foodservice customers."*

In the above examples, it is the instrumental, contractual terms in which the relationship is described rather than the nature of the relationships that indicates an individualistic OIO

Growth and innovation – generally a focus on growth and innovation is an indicator of an individualistic OIO (this could be collectivistic if innovation/R&D is aimed at making products/processes healthier or more environmentally-friendly – could also be relational if R&D/innovation/product development efforts are aimed at satisfying needs of specific customers or partners – see further descriptions under these OIOs)

*Example: "…our major profit-enhancing initiatives have centered on and continue to include:
Enhancing our portfolio by developing through innovation and acquiring of products that resonate with customers"*

Efficiency – a strong focus on efficiency concerns, particularly if these concerns appear to take priority in driving strategic decisions (such as acquisitions, divestitures, plant closings, restructuring, etc)
Comparative performance measures – a focus on performance measures that compare company results to itself (such as same-store sales compared to previous year) or to competitors
THIS DOES NOT INCLUDE YEAR-TO-YEAR COMPARISONS PRESENTED IN FINANCIAL TABLES

Performing value chain/supply chain activities internally – companies that focus on performing value chain activities (such as distribution, service, raw material supply/production/processing) internally are more individualistic

Example: "*approximately 80% of [company's] U.S. segment's purchases of merchandise were shipped to the stores through our distribution centers which are located strategically throughout the United States…General merchandise is transported to stores primarily through our private truck fleet. However, we contract with common carriers to transport the majority of our perishable and dry grocery merchandise."*

Example: *"Of these 133 distribution centers, we owned and operated 105. We owned and a third party operated one distribution facility and third parties owned and operated the remaining 27 distribution facilities."*

In these examples, although some activities are performed by outside parties, the emphasis is on the fact that a large proportion of these activities are performed by the company itself.

Limiting reliance on or interdependence with external parties – performing activities internally (see above examples); using contracts designed to optimize flexibility and minimize risk (this may be short or long-term contracts depending on the situation but the key thing is that the contracts appear designed to protect the interests of the focal firm above other concerns); emphasis on having dealings with multiple others in order to reduce dependence on any single party

Example: *"The products we sell are sourced from a wide variety of domestic and international suppliers. Global sourcing is an important factor in our financial performance…Our ability to find qualified suppliers who meet our standards and to access products in a timely and efficient* *manner is a significant challenge, especially with respect to suppliers located and goods sourced outside the United States."*

<u>Products/Relationships with buyers or customers:</u>
Emphasis on maintaining a steady or growing stream of customers/buyers; absence of concern for maintaining relationships with specific buyers or market segments
Strong focus on company brand(s); concern for product safety/concern about product recalls centered on concern for profitability and reputation with little or no concern for trust, relationships, or public welfare

Example: *"We may be subject to product liability claims and product recalls, which could negatively impact our profitability. We sell food products for human consumption, which involves risks such as product contamination or spoilage, product tampering, and other adulteration of food products. We may be subject to liability if the consumption of any of our products causes injury, illness or death. In addition, we will voluntarily recall products in the event of contamination or damage. We have issued recalls and have from time to time been and currently are involved in lawsuits relating to our food products. A significant product liability judgment or a widespread product recall may negatively impact our sales and profitability for a period of time depending on product availability, competitive reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image."*

Emphasis on protecting intellectual property rights associated with brands; emphasis on maintaining proprietary rights to knowledge that provides competitive advantage

Example: *"Through our wholly-owned subsidiary [XY, Inc.] we are one of the leading poultry breeding stock suppliers in the world. Investing in breeding stock research and development allows us to breed into our flocks the characteristics found to be most desirable."*

> Note: The above example could be coded as individualistic for three reasons: the bold, boastful statement "*leading breeding stock suppliers in the world*," the business model statement "*wholly-owned subsidiary*," and the expressed desire to internally develop and keep proprietary knowledge about breeding stock production inside the firm boundaries.

Example: *"We operate our own feed mills to produce scientifically-formulated feeds"*
Statements that express an adversarial (i.e., competing for profitability) view of buyers or customers indicates an individualistic OIO

Example: *"The sophistication and buying power of our customers could have a negative impact on profits. Many of our customers, such as supermarkets, warehouse clubs, and food distributers* *have consolidated in recent years and consolidation is expected to continue. These consolidations and the growth of supercenters have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and operating with reduced inventories. These customers may also in the future use more of their shelf space, currently used for our products, for their private label products. We continue to implement initiatives to counteract these pressures. However, if the larger size of these customers results in additional negotiating strength and/or increased private label competition, our profitability could decline."* – from Risk Factors section of 10-K

THERE ARE IMPORTANT DIFFERENCES IN CODING FOR RETAIL COMPANIES VERSUS MANUFACTURING COMPANIES

For retailers:
Store brands, private label products, customized or exclusive products indicates individualistic OIO

For manufacturers:
National brands, standardized products, emphasis on protecting intellectual property associated with owned brands indicates individualistic OIO

Example: *"[Company] is a leading global manufacturer and marketer of branded consumer foods sold through retail stores."*

NOTE: For manufacturers, producing store brands or customized products for one or more buyer indicates a relational OIO because it requires investing in relationship-specific assets or capabilities

Employees:
Focus on being able to find/maintain adequate labor supply; express a desire to keep labor costs down

Example: *"Our ability to continue and expand our operations in the United States and abroad depends on our ability to attract and retain a large and growing number of qualified associates. Our ability to meet our labor needs, including our ability to find qualified personnel to fill positions that become vacant at our existing [facilities], while controlling our associate wage and related labor costs, is generally subject to numerous external factors…If we are unable to locate, to attract or to retain qualified personnel, if our costs of labor or related costs increase significantly or if new or revised labor laws, rules or regulations are adopted, our financial performance could be adversely affected."* – from Risk Factors section of 10-K

Communities:
Indication of an adversarial view of communities or community concerns related to existence or operations of company

Example: "*Local land use and other regulations restricting construction of buildings of the type in which we operate our various formats, as well as local community action opposed to the location of specific stores at specific sites and the adoption of certain local laws restricting our operations, may affect our ability to open new [facilities], to convert [facilities] to [bigger facilities] or to relocate or expand existing units in certain cities and states.*" – from Risk Factors section

Relational

Note: It is often difficult to distinguish between relational and collectivistic OIOs from coding 10-K reports (although it is not difficult to distinguish these two orientations from individualistic OIO). For convenience, I am grouping statements which may be either relational or collectivistic under relational. Those listed under collectivistic are the items which are unambiguously collectivistic. Generally, if it is unclear whether a statement should be coded as relational or collectivistic, I use the relational code for convenience.

For a company with a relational OIO, relationships with particular parties, such as external organizations, particular consumer segments, producers, suppliers, parties to licensing agreements, alliance partners, etc are an important part of the business model

Strategic management of business:
Use of cooperative strategies, alliances, partnerships, or joint ventures – engaging in cooperative strategies, strategic alliances, and joint ventures is indicative of a relational OIO; viewing external stakeholders as partners is indicative of a relational OIO

Example: *"either independently or through contract manufacturers or authorized [production facilities] we make, market, sell, and distribute a variety of [products]"*
Example: *"The primary raw materials used in our chicken operations are corn and soybean meal used as feed and live chickens raised primarily by contract growers…contract growers care for and raise the chicks according to our standards, with advice from our technical service personnel, until the broilers reach the desired processing weight."*

Example: *"In 2011, [Global Network Services] GNS signed 11 new partners to issue cards and/or acquire merchants on the [company] network…"*

Emphasis on long-term or mutually beneficial relationships with stakeholders – relationships with external parties are important to business operations/value chain activities; relationships are on-going or long-term; concern for mutual benefit for focal firm and business partners; firm focuses on providing value to business partners

Example: *"Our Global Merchant Services (GMS) business provides us with access to rich transaction data through our closed-loop network, which encompasses relationships with both the [card holder] and the merchant. This capability helps us acquire new merchants, deepen relationships with existing merchants, process transactions, and provide targeted marketing, analytical and other value-added services to merchants on our network. In addition it allows us to analyze trends and spending patterns among various segments of our customer base."*
Example: *"The merchant discount we charge reflects the value we deliver to the merchant and the investments we make in providing that value. We deliver greater value to merchants in a variety of ways, including through higher spending by our [card holders] relative to users of cards issued on competing card networks, our product and network features and functionality, our marketing expertise and programs, information services, fraud prevention services, and other investments which enhance the merchant value propositions associated with acceptance of the card."*

<u>Products/Relationships with buyers or customers:</u>
Concern for product recalls or safety issues which emphasize potential damage to trust or relationships

Example (from a retailer): *"Our customers count us to provide them with safe products. Concerns regarding the safety of food and non-food products that we source from our suppliers and then sell could cause shoppers to avoid purchasing certain products from us or to seek alternative sources for all of their food and non-food needs, even if the basis for the concern is outside of our control. Any lost confidence on the part of our customers would be difficult or costly to reestablish. As such, any issue regarding the safety of any food and non-food items we sell, regardless of the cause, could adversely affect our financial performance."*

Emphasis on trust and value creation for customers – Concern for maintaining or strengthening relationships with buyers or customers; emphasis on creating value for consumers or buyers

Example: *"We earn the trust of our customers every day by providing a broad assortment of quality merchandise and services…our customers trust that our prices will not change under frequent promotional activity."*

Example: *"We make efforts to limit card suppression by focusing on acquiring merchants where [card holders] want to use the card; continuing to enhance the value we provide to merchants* *through programs such as [company branded program], which enable merchants of any size to gain valuable exposure by providing exclusive offers and experiences to [company] [card holders]; developing and providing new and innovative business insights, marketing programs (such as the foursquare program described above and Small Business Saturdays® described below) and fraud prevention tools using information available through our closed-loop-network…We have a client management organization which is dedicated to growing our merchant customers' business and finding ways to enhance effectiveness of our relationship with these key business partners…we dedicate substantial resources to delivering superior and differentiated value to attract and retain our merchant customers."*

> Note: Concern for maintaining a relationship with Wal-Mart does not, by itself, indicate a relational OIO because this is a function of the fact that Wal-Mart frequently accounts for 10% or more of companies' sales rather than intrinsic concern for relationships.

Relationship-specific investments or operations – Willingness to invest in relationship specific assets and capabilities to produce goods specifically suited to certain buyers; willingness to let customer/buyer needs drive business practices

Example: *"Our products are brought to market through direct-store-delivery (DSD), customer warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics and local trade practices."*

Example: *"…we build the [company] brand and [company] owned brands primarily through well-defined product-specific advertising and public relations efforts focused toward key consumer targets with specific needs. These efforts are designed to present [company] products as everyday solutions to relevant consumer problems thereby becoming part of regular eating routines."*

Example: *"Our range of products and services includes: fee services, including market and trend analysis and related consulting services, fraud prevention services, and the design of customized customer loyalty and rewards programs."*

Entrusting company brands or products to external parties – Granting licensing agreements to external parties to use company brands; otherwise allowing external parties the right to use the company's brands; or depending on others to produce, market, distribute, or otherwise impact company products/operations indicates a relational OIO

Example: *"We normally grant our independent bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area."*

Note: This does not apply both ways. That is, if the focal firms licenses rights to use the brands of other companies, this does not indicate a relational OIO.
Example related to above note (this example would NOT be coded as relational): *"Our products are marketed under trademarks and service marks that are owned by or licensed to us."*

Employees:
Desire to maintain employee relationships – Emphasis on retention and employee training and development (this should be more than a simple mention of the desire to retain employees); expressed importance of or reliance on key employees/managers

Example: *"If we are unable to hire or retain key employees or a highly skilled and diverse workforce, it could have a negative impact on our business. Our continued growth requires us to hire, retain, and develop our leadership bench and a highly skilled and diverse workforce. We compete to hire new employees and then must train them and develop their skills and competencies. Any unplanned turnover or our failure to develop an adequate succession plan to backfill current leadership positions, including our Chief Executive Officer, or to hire and retain a diverse workforce could deplete our institutional knowledge base and erode our competitive advantage. In addition, our operating results could be adversely affected by increased competition for employees, higher employee turnover or increased employee benefit costs."*

Communities:
Emphasis on mutually beneficial community relations

Collectivistic:
Statements or activities that indicate that the company views itself as a representative of the industry or other group

Example: *"We participate in standard-setting bodies,…to help drive secure and interoperable payments globally, making it easier for merchants to accept our cards, for [card holders] to have a more seamless experience at the point of sale, and for issuers that have more than one network relationship to have a standard across their card products."*

Strategic management of business:
Concern for multiple other companies in supply chain that does not come across as entirely self-serving

Example: "*Disruption of our supply chain could have an adverse impact on our business, financial condition and results of operations. Our ability, and that of our suppliers, business* *partners, including our independent bottlers, contract manufacturers, independent distributors and retailers, to make, manufacture, distribute and sell products is critical to our success*

Example: *"We can be adversely affected by the impairment of other financial institutions. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial services institutions. Financial service institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We routinely execute transactions with counterparties in the financial services industry, including commercial banks, investment banks and insurance companies. Defaults or non-performance by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by one or more of our counterparties, which, in turn, could have a material adverse impact on our results of operations and financial condition."*

Part of a network of inter-related parties – expressing activities in terms of a larger picture of inter-related parties indicates collectivistic OIO

Example: *"Spending on our cards, which is higher on average on a per-card basis versus our competitors, offers greater value to merchants in the form of loyal customers and higher sales. This enables us to earn discount rates that allow us to invest more in greater value-added services for merchants and [card holders]."*

<u>Products/Relationships with buyers or customers:</u>
Connection with a group of consumers/market segment – expressing a strong affiliation with a group of consumers or a specific market segment is indicative of a collectivistic OIO

<u>Employees:</u>
10-K discussions regarding employees can generally be coded as individualistic, relational, or generic/no code

<u>Communities:</u>
Connections to particular segments or aspects of communities; affiliation with a particular community (could be geographic, industry, professional, or other type of community)

<u>Hybrid OIO statements:</u>
Some statements include indications of more than one organizational identity orientation. In this case, give the statement a code for each OIO represented and use arrows or color coded underlining to indicate which portions of the statement correspond to which OIO.

__ individualistic
== relational
…. collectivistic

Portions that are not underlined receive no code

Example: *"Some of the key factors influencing our business are customer demand for our products; the ability to maintain and grow relationships with our customers and introduce new and innovative products to the marketplace; accessibility of international markets; market prices for our products; the cost of live cattle and hogs, raw materials, grain and feed ingredients; and operating efficiencies of our facilities."*

Example: *"Our products are marketed and sold primarily by our sales staff to [various buyers]…Additionally, sales to the military and a portion of sales to international markets are made through independent brokers and trading companies."*

Example: *"Failure to successfully complete or integrate acquisitions and joint ventures into our existing operations, or to complete divestitures, could have an adverse impact on our business, financial condition and results of operations."*

Example: *"We recently created the Global Beverages Group and the Global Snacks Group, both of which are focused on innovation, research and development, brand management and best-practice-sharing around the world, as well as collaborating with our Global Nutrition Group to grow our nutrition portfolio."*

No Code:
Generic statements; boiler plate statements (statements that are standardized across many firms) – it is still important to read seemingly generic statements because in some cases there are details in what is included or omitted which can allow you to code such statements

Generic concerns/risk factors that affect many or all business – examples include possibility of litigation, need to comply with regulations and laws, possibility of changes in regulations of laws, risk associated with fluctuations in currency values, risks associated with general economic conditions

Statements about influence of macro-economic conditions

Collective bargaining agreements; presence or absence of unionized employees

Business practices which do not indicate any of the three OIOs – examples include buying inputs or products on the open market, using derivatives or other practices to hedge risk, most business finance activities