CHAPTER 2

GOOFUS OR GALLANT? AN ATTRIBUTION-BASED THEORY OF MISCONDUCT SPILLOVER VALENCE

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ABSTRACT

Despite growing interest in misconduct spillovers – where unimplicated bystanders' stock prices, reputations, resources, and opportunities are positively or negatively affected by others' misconduct – theory about spillovers' antecedents has largely focused on industry or product similarity, and has used the same characteristics to argue for both positive and negative spillovers. Furthermore, limited research has considered both positive and negative spillovers together, instead focusing on one kind of spillover or the other in isolation, thereby creating a lack of theoretical integration within the literature. In this chapter, we draw on attribution theory and expectancy violations theory to explain when and how misconduct incurs positive and negative spillovers. We argue that a spillover's valence depends on the locus of attributions made by stakeholders, where the misconduct's causes are attributed to the perpetrator alone (i.e., an isolated attribution) – resulting in positive spillovers – or the misconduct's causes are perceived as indicative of a systemic problem shared among a broader set of organizations (i.e., a systemic attribution), leading to negative spillovers. We further suggest that the misconduct's nature and misconduct

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prevalence within a perpetrator and among other firms influences stakeholders' attributions, and ultimately the spillover's valence. Our theory contributes to the organizational misconduct literature by providing a unifying theoretical framework to understand both positive and negative spillovers.

Keywords: Organizational misconduct; spillover; attribution theory; expectancy violations; stakeholder reactions; cognition and perceptions

When you were a kid, and another kid (it could have been a sibling, or a friend) did something wrong, did you end up sharing the blame whether you did anything wrong or not? Or, did you come out looking better? That is, like the children's cartoon about brothers Goofus and Gallant, were you seen as a "screw-up" or "the good kid," and what affected whether you received the undeserved praise or vilification?

In the last 15 years, management scholars have given significant attention to a similar issue: how a firm's misconduct affects innocent bystanders (Barnett & King, 2008; Jonsson et al., 2009; Naumovska & Lavie, 2021; Paruchuri et al., 2019; Pontikes et al., 2010; Zavyalova et al., 2012). The dominant view of this phenomenon has been that audiences often extend their punitive reactions to others within the same category, thereby incurring negative spillovers (Barnett & King, 2008; Jonsson et al., 2009; Paruchuri & Misangyi, 2015). However, countervailing findings have recently emerged that misconduct can also incur positive spillovers to uninvolved bystanders (Naumovska & Lavie, 2021; Paruchuri et al., 2019; Piazza & Jourdan, 2018), creating a confusing overall image where some bystanders suffer, while some benefit from other organizations' misconduct.

Further complicating the matter, prior research has focused on perpetrator and bystander similarities in product offerings, industry membership, or category membership as the basis for both positive and negative spillovers (Jonsson et al., 2009; Naumovska & Lavie, 2021; Paruchuri et al., 2019), although the positive spillover camp has also considered the role organizational differences play in affecting a spillover's valence (Paruchuri et al., 2019; Piazza & Jourdan, 2018). We are aware of only one study that has simultaneously considered both positive and negative spillovers. Naumovska and Lavie (2021) argued and found that negative spillovers prevail the greater the market overlap between perpetrators and bystanders, up to a point, after which the positive spillover effects of competition begin to dominate. They also argued that positive spillovers occur as market overlap increases, and when evaluators use fine-grained market classifications. However, advancing research on misconduct spillovers requires more comprehensive theorizing about the antecedents of positive and negative spillovers and their underlying mechanisms that goes beyond just category co-membership (Naumovska & Zajac, 2022). Developing a more comprehensive understanding of when a positive or negative spillover is more likely to occur requires understanding why stakeholders make the particular attributions (Roehm & Tybout, 2006) that lead to positive and negative spillovers.

In this chapter, we build theory predicting misconduct spillover valence using attribution theory (Heider, 1958; Kelley & Michela, 1980; Martinko et al., 2011) and expectancy violations theory (Burgoon, 1978; Burgoon & Hale, 1988; Burgoon & Le Poire, 1993; Kim, 2014). Attribution theory has generated valuable insights into how audiences form causal inferences and evaluative judgments (Kelley & Michela, 1980; Martinko et al., 2011). Management and organizational scholars have used attribution theory to study stakeholders' responses to organizational crises (Bundy & Pfarrer, 2015; Lange & Washburn, 2012) and ascribe responsibility for negative outcomes (e.g., Gomulya et al., 2019), primarily focusing on how internal or external misconduct attributions shape stakeholders' reactions to perpetrators (Bednar et al., 2015; Love & Kraatz, 2017). Scholars have employed expectancy violations theory to understand how stakeholders react to positive and negative surprises (Pfarrer et al., 2010), and how firms use different impression management techniques to manage negative expectancy violations (Elsbach, 2006; Graffin et al., 2016).

We argue that stakeholders' attributions have implications for bystanders as well as perpetrators, because attributional processes are highly relational in nature (Eberly et al., 2011; Lange & Washburn, 2012). That is, whether stakeholders attribute a misconduct incident to the perpetrator only (i.e., make an "isolated attribution") or view it as indicative of a common problem among a larger group of firms (i.e., make a "systemic attribution") is a key determinant of the misconduct spillover's valence, because this attribution shapes stakeholders' perceived generalizability of the perpetrator's culpability (Paruchuri & Misangyi, 2015). Thus, our theory differs from prior work focused on category characteristics alone (Barnett & King, 2008; Naumovska & Lavie, 2021). Focusing just on category characteristics by definition means that spillovers can only occur within that industry or category. In contrast, because we view the locus of audiences' attribution as the central theoretical mechanism, our theory allows for the possibility that misconduct spillovers can occur across dissimilar industry categories, depending on how the attribution process unfolds.

In developing our theory, we first establish the relationship between the locus of attribution and the valence of the spillover, proposing that more isolated attributions have a greater influence on the likelihood of positive spillovers, and more systemic attributions have a greater influence on the likelihood of negative spillovers. Next, we theorize about how the nature of the misconduct – whether it is a capability or integrity failure (Connelly et al., 2016; Mishina et al., 2012) – affects the locus of attribution. We also consider how the extent to which the misconduct's prevalence within the perpetrator organization (Greve et al., 2010) and among organizations in the broader environment (Zavyalova et al., 2012) influences the locus of attribution. We further theorize that these different prevalence dimensions also moderate the relationship between the locus of attribution and the spillovers' valences in different ways.

Our theoretical framework contributes to the organizational misconduct literature by moving the focus from common category membership and competitive overlaps to the attributional processes underlying stakeholders' assessments that drive positive and negative spillovers. In doing so, we clarify the boundary

conditions for the long-observed phenomenon of negative spillovers, and the newly emerging research stream on positive spillovers. By extending insights from attribution theory, we provide a theoretical basis for distinguishing between the antecedents of positive and negative spillovers, thereby offering guidelines on when positive or negative spillovers are more likely to occur that can extend beyond typical industry-based categorical boundaries.

AN ATTRIBUTION-BASED THEORY OF MISCONDUCT SPILLOVERS

The Locus of Attribution and Spillover Valence

Attribution theory's central premise is that when confronted with incidents that deviate from expectations or widely accepted norms (as is the case with organizational misconduct [Greve et al., 2010; Paruchuri et al., 2019]), observers actively seek explanations for the incident and make causal inferences – in other words, they make attributions (Heider, 1958; Weick, 1995). These attributions, however, tend to be "far from logical and thorough" (Fiske & Taylor, 1991, p. 553), because people frequently form instantaneous judgments about the perpetrators and their misconduct despite generally lacking detailed information about the actual causes and consequences (Bundy & Pfarrer, 2015; Lange & Washburn, 2012). Rather, what matters the most in attributing blame to the perpetrator is whether the perceived locus of causality is internal or external to the actor (Eberly et al., 2011; Kelley & Michela, 1980). All else equal, stakeholders disapprove more strongly of internally attributed misconduct, because internal attributions imbue greater responsibility to the actor (Bednar et al., 2015; Bundy & Pfarrer, 2015; Lange & Washburn, 2012). External attributions allow the actor to evade responsibility by blaming the misconduct on factors or circumstances beyond their control (Salancik & Meindl, 1984; Staw et al., 1983).

However, when situating a perpetrator within a broader group of organizations (i.e., bystanders), the "internal vs external" distinction is insufficient. Attribution processes also tend to be relational, where audiences try to discern whether others related to the perpetrator share the cause (Eberly et al., 2011; Lange & Washburn, 2012). This is why misconduct spillovers to bystanders, be they positive or negative, exist. When witnessing misconduct, audiences wonder to what extent other organizations are susceptible to similar problems, and therefore are also likely to engage in similar misconduct (Paruchuri & Misangyi, 2015). Thus, audiences are also motivated to assess whether the misconduct's cause is "isolated" to the perpetrator, or is part of a "systemic" problem among a larger group of actors (Desai, 2011).

We argue that attributions' "internal vs external" and "isolated vs systemic" dimensions reflect distinct continua. Whereas internal versus external distinctions are primarily relevant for assessing the *perpetrator's* culpability, the isolated versus systemic distinction is relevant for assessing *bystanders'* culpability – that is, for spillovers. For instance, a chemical spill resulting from a hurricane can lead

to an external attribution, as it resulted from an uncontrollable force. Whether the event is isolated or systemic, however, depends on whether there are reasons to believe other firms are similarly susceptible (e.g., if other chemical plants were also located in the hurricane's path, but had built their facilities to higher standards, so that they were more able to withstand the hurricane and thus be less likely to experience a spill). Likewise, a financial fraud carried out by a rogue individual within a firm may lead to internal attributions, but whether they are isolated or systemic depends on whether audiences see the cause as unique to the firm (e.g., it has an idiosyncratic culture, or it hired a "bad egg"), or if they infer a more generalizable problem, such as perverted incentive structures or insufficient monitoring mechanisms that exist within firms across the corporate community, as occurred during the credit default swap frenzy preceding the great recession.

Although it may seem that the locus of attribution should be either isolated or systemic, we argue these attributions reflect the opposite ends of a single continuum, rather than two categorical outcomes. Audiences can vary in the certitude with which they make their attributions (Bundy & Pfarrer, 2015; Lange & Washburn, 2012). That is, while some misconduct incidents may clearly result from isolated or systemic causes, others require more speculation about the locus of attribution, influencing the spillover's likelihood and magnitude. In some cases, audiences may fail to form causal attributional judgments at all, leaving their implications for bystanders uncertain. Hence, approaching the ends of the continuum indicates more perceived certainty in making isolated or systemic attributions of responsibility, while the middle range represents a grayer area where audiences face more causal uncertainty, and thus are less confident in discerning the locus of attribution.

When stakeholders attribute misconduct to isolated causes, they also tend to assume that bystanders do not share the causes. However, when an organization's misconduct stimulates systemic attributions because they have seen other instances of firms engaging in the same behaviors, audiences come to doubt the belief and value systems shared across the broader set of organizations, reflected in their common ways of doing things (Desai, 2011; Greve et al., 2016; Han & Pollock, 2021). This facilitates generalizing culpability beyond the perpetrator (Paruchuri & Misangyi, 2015), initiating negative spillovers that can even lead to category delegitimation (Jonsson et al., 2009). On the other hand, what enables bystanders to gain from others' misconduct is the belief that the perpetrator has different intentions, and does things differently than the bystanders (Paruchuri et al., 2019; Piazza & Jourdan, 2018). For this to happen, audiences must first attribute the perpetrator's misconduct to isolated causes that do not apply to bystanders, making the perpetrator the attribution's sole target (Gomulya et al., 2019; Lange & Washburn, 2012), increasing the likelihood of positive spillovers.

We argue that this attribution process's influence supersedes common category membership in causing spillovers – the primary theoretical reasoning adopted by prior spillover studies – because whether audiences perceive two organizations as similar and/or distinct (initiating a negative or positive spillover) depends largely on whether they are primed to think about the perpetrator's and bystanders'

similarities or differences (Naumovska & Zajac, 2022; Roehm & Tybout, 2006). That is, the extent to which audiences make isolated or systemic attributions of responsibility is the primary driver of spillovers' valence, although we also theorize how contextual factors can affect the attribution and spillover processes. Thus, as the first building block of our theoretical model we propose that:

P1a. The clearer stakeholders are in making isolated attributions of responsibility for misconduct, the more likely the misconduct is to result in positive spillovers to bystanders.

P1b. The clearer stakeholders are in making systemic attributions of responsibility for misconduct, the more likely the misconduct is to result in negative spillovers to bystanders.

Locus of Attribution Antecedents

Now that we have established the basic relationship between locus of attribution and spillover valence, we want to take a step back and further consider the factors that influence the extent to which a particular attribution locus dominates. We consider three factors that can influence these attributions: the misconduct's (1) nature, (2) prevalence within the perpetrator, and (3) prevalence among other firms.

Nature of the misconduct. We argue that the misconduct's nature can influence whether stakeholders make isolated or systemic attributions of responsibility. Research in social psychology and social evaluations has long identified capability – an actor's ability to perform – and integrity – an actor's adherence to accepted ethical, regulatory, and normative principles – as the fundamental dimensions through which humans evaluate others (Fiske et al., 2007; Mishina et al., 2012; Park & Rogan, 2019; Paruchuri et al., 2021; Wojciszke et al., 1998). Similarly, organizational misconduct typically takes two forms: *capability* failure, where an organization "falls short of technically proficient performance"; or *integrity* failure, where an organization's "motives, honesty, and/or character fall short" (Connelly et al., 2016, p. 2136). Chipotle's repeated *E. coli* problems, which appear to have resulted from their overly complex supply chain (Paruchuri et al., 2019), are an example of the former, and Wells Fargo's efforts to issue "sub-prime," no money down loans to people who clearly could not afford them so they could just be packaged and sold as securities is an example of the latter.

While stakeholders take both types of misconduct seriously, prior research has shown that, in general, integrity failures have a more profound influence than capability failures on stakeholders' post-misconduct evaluations of the perpetrator (Mishina et al., 2012; Paruchuri et al., 2021). This is because stakeholders treat indicators that the firm violated social norms and values as clear signs that the perpetrator intended to engage in misconduct. While failing to execute or perform activities can also result in misconduct, the misconduct may not have been the firm's intent (Paruchuri et al., 2021). That is, *motivation* plays

a significant role in assessing, and determining the misconduct's consequences (Palmer et al., 2016).

We argue the differences in how stakeholders treat capability and integrity failures affect the spillover's valence, because these differences can affect how stakeholders perceive the locus of attribution. Stakeholders are more likely to assume firms will act with integrity than that they will perform capably (Mishina et al., 2012); thus integrity failures are particularly disruptive (Paruchuri et al., 2021), because they create powerful expectancy violations (Burgoon, 1978; Burgoon & Hale, 1988).

Interacting parties develop expectations about one another driven by social norms, actors' characteristics, and prior experience (Burgoon, 1978; Burgoon & Le Poire, 1993). When an actor deviates from these expectations they create an "expectancy violation."

> When behavior violates expectancies, people likely experience arousal and evaluate both the transgressor and transgression. These evaluations then guide the victim's behavioral response, as well as perceptions of the partner and relationship. (Bachman & Guerrero, 2006, p. 945)

Furthermore, both the expectations and violations are valenced; that is, an actor can have positive or negative expectations about the other's behavior, and the expectancy violations can be positive (exceeds expectations) or negative (fails to meet expectations). Experiencing negative expectancy violations when positive outcomes are expected – such as the expectancy violations created by integrity failures – often stimulate the largest negative reactions, diminishing stakeholders' subsequent assessments and expectations about future behaviors (Burgoon & Le Poire, 1993; Kim, 2014). Furthermore, scholars have also found that actors' reactions to negative expectancy violations are even greater when they learn the negative expectancy violation was intentional (Bachman & Guerrero, 2006).

Integrity-based expectancy violations lead to moral evaluations, which are frequently tied to organizational values and culture (Bundy & Pfarrer, 2015; Pollock et al., 2019). Furthermore, individuals are more like to perceive integrity violations as intentional, making reactions to the violations more intense (Bachman & Guerrero, 2006). Thus, stakeholders are more likely to question whether integrity failures reflect broader deficiencies in the norms and value system shared among the perpetrator's peers, since challenges to taken-for-granted norms often result in rapidly spreading fear and anxiety among audiences (Harmon, 2019). For example, once it became clear that some banks and mortgage lenders were making loans they knew had little chance of being repaid before the market meltdown of 2008, the public quickly began to wonder if *all* banks and lenders were engaging in these behaviors. Their doubts about one actor's morality spurred suspicions about the morality of others who share the same value system, increasing the likelihood stakeholders perceived a systemic locus of attribution.

Capability evaluations, in contrast, tend to be individuating – that is, targeted toward the evaluated actors themselves – and thus are usually less reflective of commonly-held traits. As a result, capability-based expectancy violations are more likely to result in stakeholders perceiving an isolated locus of attribution, as stakeholders are less likely to cast doubt on others' capabilities just because

a single actor failed to meet an acceptable capability standard.[1] Thus, we argue that:

P2a. Capability failures are more likely than integrity failures to lead to isolated attributions of responsibility for misconduct.

P2b. Integrity failures are more likely than capability failures to lead to systemic attributions of responsibility for misconduct.

Misconduct prevalence within organizations. The extent to which misconduct is prevalent, or has been normalized, within the perpetrator organization can also affect the stakeholders' perceived locus of attribution (Vaughan, 1996, 1999). To the extent that the perpetrator has previously engaged in repeated misconduct – particularly if it went unnoticed or unpunished – the more likely the associated behaviors are to become "embedded in organizational routines," leading to the "institutionalization of deviance within organizational cultures" (Greve et al., 2010, p. 73). As a result, the organization's internal standards become skewed, which could eventually lead the entire system to fail (Starbuck & Milliken, 1988). Audiences are well-aware of this possibility and tend to react more negatively to repeated misconduct. Stakeholders are more likely to perceive the current incident as intentional, even if the repeated misconduct was due to errors or externally driven accidents, since the perpetrator has not taken steps to prevent the same misconduct (Pfarrer et al., 2008). Thus, the negative expectancy violation, whether it is because of a capability or integrity failure, will be more intense (Bachman & Guerrero, 2006).

The perceived normalization of misconduct in the perpetrator organization therefore increases perceptions of the perpetrator's intransigence and culpability – and its difference from other organizations – which can also increase the likelihood that stakeholders will perceive an isolating locus of attribution. Moreover, the fact that the perpetrator has managed to commit the same misconduct over and over could trigger doubts about the organization's ability to correct its behavior (Desai, 2011). In this case, audiences are likely to assume an implicit distinction between the perpetrator and bystanders, increasing the likelihood that they perceive the locus of attribution for the misconduct as isolated, and decreasing the likelihood they perceive it as systemic (Paruchuri & Misangyi, 2015).

This mechanism applies to both capability failures and integrity failures. As we argued above, stakeholders are more likely to attribute capability failures to isolating mechanisms, and misconduct due to perpetrators' repeated capability failures solidifies this attribution. In the case of integrity failures, audiences typically generalize the failure to value systems prevalent in the environment (i.e., if one firm's doing it, then they all are likely doing it); however, repeated misconduct due to integrity failures may also result in attributing the misconduct to isolated mechanisms, suggesting the firm may be a "bad apple" that is different from the rest of the firms in its industry – for example, the Catholic church's prevalence

and handling of pedophile priests (Piazza & Jourdan, 2018). Although less common, this circumstance could still result in a positive spillover. Thus:

> *P3*. Greater misconduct prevalence within the perpetrator will (a) increase the likelihood stakeholders make isolated attributions of responsibility for misconduct; and (b) decrease the likelihood stakeholders make systemic attributions of responsibility for misconduct.

Misconduct prevalence among organizations. The prior proposition focused on the perpetrator's repeated misconduct. However, the perpetrator does not exist in a vacuum; there are other firms engaging in a variety of actions, and some of them may also have engaged in the same misconduct in the past (or may be engaging in it concurrently and haven't been caught). This is why we refer to bystanders as "unimplicated" in the particular incident, rather than as "innocent." Thus, the extent to which other firms have engaged in the same misconduct can also affect attributions of how isolated or systemic the misconduct's causes are, and influence whether the perpetrator's current misconduct results in positive or negative spillovers.

Just as misconduct prevalence within the perpetrator focuses attention on the perpetrator's behavior and decreases attention to others' behavior, misconduct prevalence among other actors focuses attention on bystanders to the focal misconduct incident and places the perpetrator's actions within a broader social context. The prevalence of prior instances by others provides "social proof" (Cialdini, 2021; Pollock et al., 2008) that other firms share the same values, increasing perceptions that the perpetrator's misconduct reflects systemic problems, a process that is enhanced by individuals' tendencies to establish, or even force, patterns from repeated stimuli (Rindova et al., 2010). Depending on the misconduct's specific nature, these behaviors may be common to firms within a particular industry or category, such as cutting costs in ways that increase product recalls (Zavyalova et al., 2012), or they may be shared more broadly among firms in a variety of categories, such as data breaches or financial frauds (Dewan & Jensen, 2020). Regardless, the greater the prevalence of the same misconduct by other firms, the less differentiated the perpetrator seems from bystanders, and the more likely stakeholders are to attribute the misconduct to systemic, rather than isolated causes. We therefore propose:

> *P4*. Greater misconduct prevalence among other organizations will (a) decrease the likelihood stakeholders make isolated attributions of responsibility for misconduct; and (b) increase the likelihood stakeholders make systemic attributions of responsibility for misconduct.

The Moderating Effects of Misconduct Prevalence

In addition to having a direct effect on the locus of attribution, we also argue that misconduct prevalence within the perpetrator and among other firms will affect the magnitude of the relationships between the isolated and systemic locus of attribution and spillover valence, although the moderating effects can differ from their main effects.

First, consistent with its positive main effect on isolated attributions, we expect that increasing misconduct prevalence within the perpetrator will strengthen the positive relationship between isolated attributions of responsibility for the misconduct and positive spillovers, increasing the spillover's magnitude. As we noted above, the strength of stakeholders' attributions is affected by both the misconduct's characteristics and contextual factors; thus, the strength of the attribution, and its effects on the spillover, can vary as a function of multiple mechanisms. However, we further argue that once an isolated attribution is made, for whatever reason, the misconduct prevalence within the firm will also influence the strength of the relationship between the attribution and the likelihood of positive spillover, because it can further influence perceptions of the difference between the perpetrator and the bystanders by affecting the magnitude of the expectancy violation (Bachman & Guerrero, 2006; Graffin et al., 2016; Pfarrer et al., 2010).

For example, if the perpetrator had a significant capability failure, but it was not a repeated failure, stakeholders may still attribute the misconduct to isolated causes. However, since the misconduct was not prevalent in the organization, the expectancy violation may not be as great because stakeholders can rationalize it as a "one-off" occurrence, and thus treat it as less intentional (Bachman & Guerrero, 2006). Stakeholders may not therefore differentiate the perpetrator as much from other firms (i.e., "yeah, they screwed up, but it could happen to anybody"), resulting in a weaker positive spillover. In contrast, if misconduct prevalence is high within the firm, the spillover's magnitude will likely be greater because of the intent reflected in the repeated misconduct (Bachman & Guerrero, 2006), increasing the perceived difference between the perpetrator and the bystanders, and strengthening the positive spillover effect. We therefore propose:

P5. The greater the misconduct prevalence within the perpetrator, the stronger the positive relationship between isolated attributions of responsibility for misconduct and positive spillovers.

Conversely, prevalent misconduct among other organizations in the environment can weaken the influence of a systemic locus of attribution on negative spillovers by reducing the distinctiveness and the magnitude of the expectancy violation it engenders. This is because, although misconduct prevalence among other firms increases the likelihood stakeholders will attribute the perpetrator's misconduct to systemic causes, it also diminishes the salience of the perpetrator's behavior and the degree to which it stands out. Prior research has demonstrated that there is a "safety in numbers" effect (Naumovska et al., 2021; Pollock et al., 2008; Zavyalova et al., 2012), because individuals are drawn to novel stimuli and perceive greater informational value in stimuli that stand out (Pfarrer et al., 2008; Pollock & Gulati, 2007; Zavyalova et al., 2012). When a behavior is prevalent, however, any one actor is less likely to be noticed, and thus is less likely to influence attributions about bystanders. Furthermore, because the misconduct is prevalent, it also influences expectations (Burgoon & Hale, 1988; Kim, 2014). If lots of other firms are engaging in the same misconduct, normalizing the behavior, it decreases expectations about other firms' behaviors, so the expectancy violation is

smaller when the perpetrator reveals its misconduct. Thus, although misconduct prevalence among firms increases the likelihood stakeholders will attribute the misconduct to systemic causes, it also reduces the influence of a systemic locus of attribution on negative spillovers to bystanders. We therefore propose:

P6. The greater the misconduct prevalence among other organizations, the weaker the positive relationship between systemic attributions of responsibility for misconduct and negative spillovers.

DISCUSSION

In this paper, we developed a theoretical model predicting misconduct spillover valence, summarized in Fig. 1. Building on attribution and expectancy violations theory, we argued that audiences' locus of attribution – whether they perceive the cause to be isolated to the perpetrator or a part of a systemic problem – is at the center of their decision to punish or reward uninvolved bystanders. Isolated attributions of responsibility highlight the difference between the perpetrator and bystanders, which reduces concerns that others are engaged, or will also engage in the same misconduct (Paruchuri & Misangyi, 2015), and increases the likelihood of positive spillovers. In contrast, systemic attributions emphasize the perpetrator's similarities with bystanders based on shared common values, practices, or other characteristics, increasing concerns that others are also likely engaging in, or will engage in the misconduct, and thus increasing the likelihood of negative spillovers.

We further argued that the misconduct's nature (i.e., whether it resulted from capability or integrity failures) and the misconduct's prevalence within the perpetrator or among other firms affects the locus of attribution by influencing attributions about the motivation for the misconduct, and the magnitude of the expectancy violation. All else equal, capability failures are more likely to

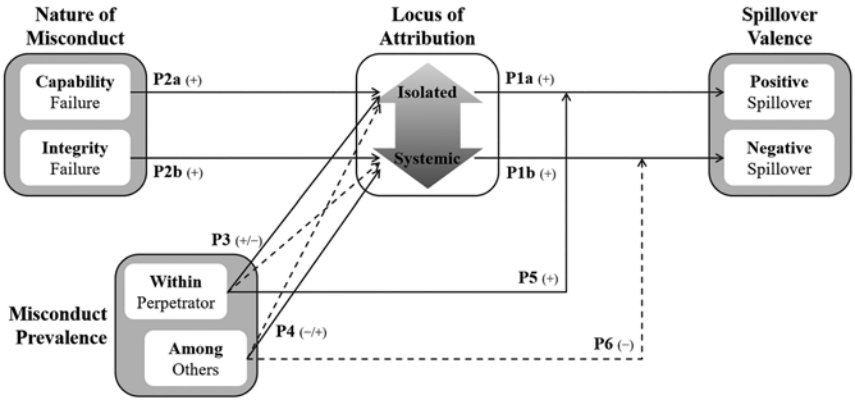

Fig. 1. Conceptual Framework. *Note*: Solid lines represent positive/amplifying effects and dotted lines represent negative/attenuating effects.

increase the likelihood of isolated attributions because competence judgments tend to involve individuating perceptions, and may even be unintentional (Bundy & Pfarrer, 2015; Pollock et al., 2019), whereas integrity failures increase the likelihood of systemic attributions because audiences are more likely to associate morality and values-based failures with broader value systems (Paruchuri et al., 2021; Pollock et al., 2019).

We also considered how the prevalence of misconduct within and among firms affects the locus of attributions and the relationship between the locus of attribution and spillover valence. Repeated misconduct within the perpetrator increases perceptions that the firm intended to engage in the misconduct, and highlights its difference from other firms, enhancing the likelihood they will make isolated attributions (Pfarrer et al., 2008). In contrast, misconduct prevalence among other firms increases perceptions that the misconduct is widely engaged in, reducing differences and thus increasing systemic attributions. Finally, since the locus of attribution is influenced by multiple factors, we argue that misconduct prevalence within the perpetrator will strengthen the relationship between isolated attributions of responsibility and positive spillovers, but that greater misconduct prevalence among other firms provides safety in numbers that weakens the relationship between a systemic locus of attribution and negative spillovers. We believe our theory makes important contributions to the literature on misconduct spillovers and provides useful insights for future research.

Implications for Theory and Future Research

The misconduct spillovers literature faces two significant issues: (1) prior studies have paid disproportionate attention to negative spillovers, and (2) even the few studies on positive spillovers have largely attempted to explain positive spillovers using the same theoretical mechanisms – similarities in organizational characteristics – used to explain negative spillovers (Naumovska & Lavie, 2021; Paruchuri et al., 2019; Piazza & Jourdan, 2018). Some argue bystanders must share similar characteristics with the perpetrators to experience either type of spillover, but at the same time should be different in other aspects that differentiate them in desirable ways to experience positive spillovers (Paruchuri et al., 2021; Piazza & Jourdan, 2018). Others argue that some degree of similarity between bystanders and perpetrators leads to negative spillovers, but higher degrees of overlap and more fine-grained similarities, which result in more direct competition among the firms, lead to positive spillovers (Naumovska & Lavie, 2021). However, the problems of just how much similarity, and in what respects bystanders need to be (dis)similar from the perpetrators, remains.

Rather than developing endless – and inevitably context-specific – taxonomies of firm-specific characteristics, or developing categories that are so general they are empirically meaningless, we make our major theoretical contribution by moving away from attribute-based (dis)similarities as spillover valence's primary driver, and instead focus on the cognitive processes underlying attributions and expectancy violations, and how innate aspects of the misconduct itself and the context in which it occurs shapes audiences' attributions regarding the locus of

the misconduct, and through it the spillover's valence. We believe our attribution-based approach is more useful in understanding misconduct spillovers' valences because the perceptions of (dis)similarities are far from absolute; rather, they tend to be malleable depending on situational factors and stakeholders' evaluative goals (Durand & Paolella, 2013; Naumovska & Zajac, 2022; Roehm & Tybout, 2006).

From this perspective, organizational similarities' confusing role in the literature does not result from improper theorization. Rather, it reflects the way attributions are actually made: the similarities can mean different things in different contexts. Moreover, our attribution-based approach does not require industry-based interorganizational similarities as a necessary condition for misconduct spillovers, increasing our ability to understand and explain "boundaryless" spillovers that are not related to the typical, industry-based similarities used in prior research. Considering that some of the most notable scandals – such as the Enron scandal, the options backdating scandal, the subprime mortgage scandal, and the Facebook-Cambridge Analytica data breach scandal – had ramifications well beyond any single industry (Dewan & Jensen, 2020; Paruchuri et al., 2021), theorizing based on product or industry-based attribute similarities as the primary antecedent to misconduct spillovers may be too restrictive.

Our theory also opens some interesting avenues for future research. Although we have conceptualized whether a perpetrator's misconduct results from a capability or integrity failure as a primary factor influencing the locus of attribution, this distinction is not always so clear. Thus, exploring situations where the two types of failures are intertwined (e.g., an integrity failure leads to a capability failure, as when cutting corners to increase profit margins leads to capability losses that result in misconduct) could yield additional insights into how mixed attributions are made, how they are likely to influence whether spillovers occur, and what their valence is. Additionally, wrongdoing could occur in different forms; some forms may map more directly onto capability or integrity failures, whereas others may not map as directly onto one particular failure type. Future research could theorize about the nuances in capability or integrity failure effects on isolated or systemic attributions based on these wrongdoing forms. We also recognize that the locus of attribution is a continuum where isolated and systemic attributions of responsibility represent the endpoints. For ease of theorizing, we have focused on the ends of the continuum in developing our propositions, but there is obviously a range of options in between. How these mixed attributions affect spillover valence, and the factors that influence these outcomes, are another interesting avenue for future research.

Our theory also considers contextual factors – specifically, the misconduct's prevalence within the perpetrator and among other firms – as important factors influencing the locus of attribution, and in creating boundary conditions influencing the likelihood that stakeholders' attributions result in positive and negative spillovers to bystanders. There has been an active debate on the effect of misconduct prevalence as a separate stream of research; for example, the safety in numbers effect primarily focuses on how a controversial act's prevalence among firms affects the outcomes for perpetrators (Naumovska et al., 2021; Pfarrer et al., 2008; Zavyalova et al., 2012). In addition to enriching this research stream

by extending the theory to include bystanders' outcomes, our theory could provide potential answers regarding why we do not witness spillovers in every instance of misconduct. That is, while prior studies' primary goal has been to prove that misconduct spillovers exist (Jonsson et al., 2009; Paruchuri & Misangyi, 2015; Paruchuri et al., 2019; Piazza & Jourdan, 2018), whether and why spillovers do or do not occur following an actor's misconduct are important yet insufficiently addressed questions, and a promising avenue for future research. We therefore encourage researchers to explore additional factors that affect misconduct salience and how it is interpreted, and the ways they influence the relationship between the locus of attribution, whether it results in a spillover, and the spillover's valence.

Finally, as scholars expand our model by exploring a variety of additional relevant constructs, we recommend they consider perpetrators' and bystanders' social evaluations – or "socially constructed, collective perceptions of firms such as status, reputation, celebrity, and stigma" (Pollock et al., 2019, p. 444) – as a particularly fruitful extension. Scholars have long considered social evaluations an important factor shaping audiences' interpretation of and reaction to organizational misconduct, particularly due to their ability to provide audiences with cognitive heuristics that alleviate perceived uncertainty at the onset of misconduct (Bundy & Pfarrer, 2015; Chandler et al., 2020; Dewan & Jensen, 2020; Park & Rogan, 2019). These evaluations contain unique sociocognitive content that dictates audiences' idiosyncratic expectations (Pollock et al., 2019). Such expectations may have direct relevance for the attribution process and the expectancy violations stakeholders experience, as even the same behavior can be interpreted differently depending on the firms' social evaluations (Hubbard et al., 2018; Pfarrer et al., 2010). For instance, the same misconduct could trigger isolated attributions of responsibility for some perpetrators and systemic attributions for others if the sociocognitive content underlying the perpetrators' social evaluations induce stakeholders to perceive the perpetrator as distinct from, or representative of a broader group of firms.

CONCLUSION

The idea that misconduct's aftermath can reach beyond the perpetrators and affect uninvolved bystanders has long fascinated management and organizational researchers, perhaps even more so recently with the emerging evidence of positive spillovers. As one of the earliest attempts to simultaneously consider both positive and negative spillovers, we proposed that understanding how stakeholders make attributions is key to bringing both types of spillovers together in an integrated and generalizable theoretical framework. Perhaps it will also help you understand why you were blamed when another kid broke the neighbor's window, or why you always suffered when your younger brother or sister did something wrong, but they never seemed to share the blame when you were the perpetrator.

NOTE

1. This does not mean that integrity failures cannot result in an isolated locus of attribution, or that capability failures cannot be perceived as systemic; however, we do think that, on average, they will be more frequently associated with the locus of attribution we theorize. We use the terms "more/less likely" here and elsewhere to recognize the probabilistic nature of these relationships.

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