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Introduction

Wrongdoing perpetrated in and by organizations has dominated the news periodically over the past decade. The most prominent case involved energy market manipulation, fraudulent accounting, and special purpose entity conflicts of interest at Enron Corporation. Other cases included the fraudulent billing practices at Worldcom, the inappropriate use of company resources for top management perks at Tyco, and the post-dating of stock options at Waste Management. Much of the highly publicized organizational wrongdoing has been collective in nature, involving the interaction of many people in the same or interdependent organizations. Each of the recent instances of wrongdoing cited above fits this description.

Organizational wrongdoing can have significant consequences for its victims. It can be injurious to customers. The women who used Wyeth Pharmaceutical's drug fenfluramine, the active ingredient in the prescription appetite suppressant cocktail Fen-Phen, were not fully warned of the drug's dangers. As a result, many took the drug and unsuspectingly experienced elevated risks of primary pulmonary hypertension and heart valve disease, painful and incapacitating conditions that in many cases resulted in death (Mundy 2001). The agribusinesses that purchased Archer Daniels Midland (ADM) lysine shouldered substantially higher costs because ADM conspired with other lysine producers to fix the price of the cattle feed additive at above-market levels (Eichenwald 2000).

Organizational wrongdoing also frequently is injurious to investors. Many of the elderly men and women who bought shares in Prudential Bache's deceptively risky, and in some cases entirely fictitious, limited partnerships lost their life savings when these mischaracterized and bogus financial instruments went belly up (Eichenwald 2005). The community members who placed deposits and bought stock in local thrifts lost their nest eggs in the 1980s when their savings and loan institutions went bankrupt after engaging in a variety of fraudulent dealings (Pizzo, Fricker, and Muolo 1991).

Organizational wrongdoing also can be injurious to employees. The workers and managers who invested their pensions in Enron saw their retirement savings evaporate when the company, buffeted by charges of extensive top management financial and accounting fraud, went bankrupt (McLean and Elkind 2004). Finally, organizational wrongdoing can be injurious to communities. In the 1970s, the women who lived in the vicinity of Love Canal experienced elevated incidence of miscarriage, and their children suffered above average incidence of defects at birth and serious illnesses in childhood, presumably because toxic waste dumped into the canal by Hooker Chemical contaminated the upstate New York community's water supply (Verhovek 1988). A decade later, the families who lived in the vicinity of the Union Carbide chemical plant in Bhopal, India, suffered blindness, respiratory illnesses, and death, when the plant released toxic gas into the atmosphere surrounding the plant (Shrivastava 1991).

Organizational wrongdoing also can have significant consequences for its perpetrators. For many years, prosecutions of companies and their leaders were rare, and punishments were mild. But in 1991, more stringent sentencing guidelines for organizations were issued in the United States. These and other subsequent legal changes in the United States and abroad have rendered organizations and their leaders more vulnerable to prosecution and punishment. In recent years, civil judgments of $100 million or more against wayward corporations have become common. Moreover, significant fines and jail terms have been meted out to convicted corporate and white-collar criminals. It can be argued that the punishments dealt to organizations and their leaders are still insufficiently frequent and severe, and that as a result, wrongdoing often does not harm and sometimes very much benefits, perpetrators. But the significance of the increasingly severe punishments for the firms and individuals who receive them cannot be denied. To be sure, all of these consequences, whether experienced by the victims or the perpetrators of wrongdoing, amount to personal tragedy and economic waste.

This book is a critical review and extension of theories about the causes of organizational wrongdoing. I primarily examine theories at the individual level of analysis and almost exclusively focus on collective wrongdoing. Further, while I consider wrongdoing in many different types of organizations, from government agencies to financial institutions, I largely focus on private-sector organizations. Put succinctly, I analyze theories that explicate the factors that lead directors, top managers, middle managers, and line employees to either initiate wrongful behavior that initially or ultimately involves multiple individuals, or that cause these organizational participants to join others engaged in wrongdoing already in progress. I do not seek to identify factors that make some subunits, organizations, industries, or higher levels of social organization prone to misconduct. I do not focus on white-collar crimes such as embezzlement, which tend to be perpetrated by solitary individuals.

My critical analysis of theories offers six contributions to the literature on organizational wrongdoing. First, I distinguish between two overarching *perspectives* on organizational wrongdoing. These perspectives present different outlooks on the nature of wrongful behavior, the characteristics of wrongdoers, and the range of causes of wrongdoing in organizations. One perspective, the conventional view, conceptualizes wrongdoing as an abnormal phenomenon. The other perspective, a contrasting outlook, conceptualizes wrongdoing as normal.

Second, I identify two ideal-typical *approaches* to analyzing the causes of organizational wrongdoing. One approach, the more longstanding and widely accepted "dominant" framework, assumes that wrongdoing is produced by mindful and rational actors who deliberate in social isolation, make discrete decisions, and develop positive inclinations to engage in wrongdoing. The other approach, a more recent and increasingly popular "alternative" framework, assumes that wrongdoing is sometimes produced by mindless and boundedly rational actors, who formulate their behavior in an immediate social context, in a temporally protracted escalating fashion, and who never develop positive inclinations to engage in wrongdoing.

Third, I elaborate eight specific *explanations* of organizational wrongdoing. Two of these explanations follow from the perspective that views organizational wrongdoing as an abnormal phenomenon and embrace the dominant approach to explaining wrongdoing: the rational choice and cultural accounts. Five of these explanations follow from the perspective that views organizational wrongdoing as a normal phenomenon and embrace the alternative approach to explaining wrongdoing: the administrative system, situational social influence, power structure, accidental behavior, and social control accounts. One of these explanations, the ethical decision account, bridges the two perspectives and approaches. The relationships between the two overarching *perspectives* on organizational wrongdoing, the two dominant *approaches* to analyzing the causes of wrongdoing, and the eight specific *explanations* of wrongdoing are depicted in Figure 1.

Fourth, I contribute to the elaboration of the one bridging and five alternative explanations of wrongdoing. I believe that all eight explanations of organizational wrongdoing are valuable and can be considered complementary. But as will become clear in the next chapter, I champion the normal organizational wrongdoing perspective on wrongdoing and the alternative approach to explaining wrongdoing. Thus, I do not just review the explanations of wrongdoing associated with the normal organizational wrongdoing perspective and the alternative approach to explaining wrongdoing. I try to advance these explanations as well.

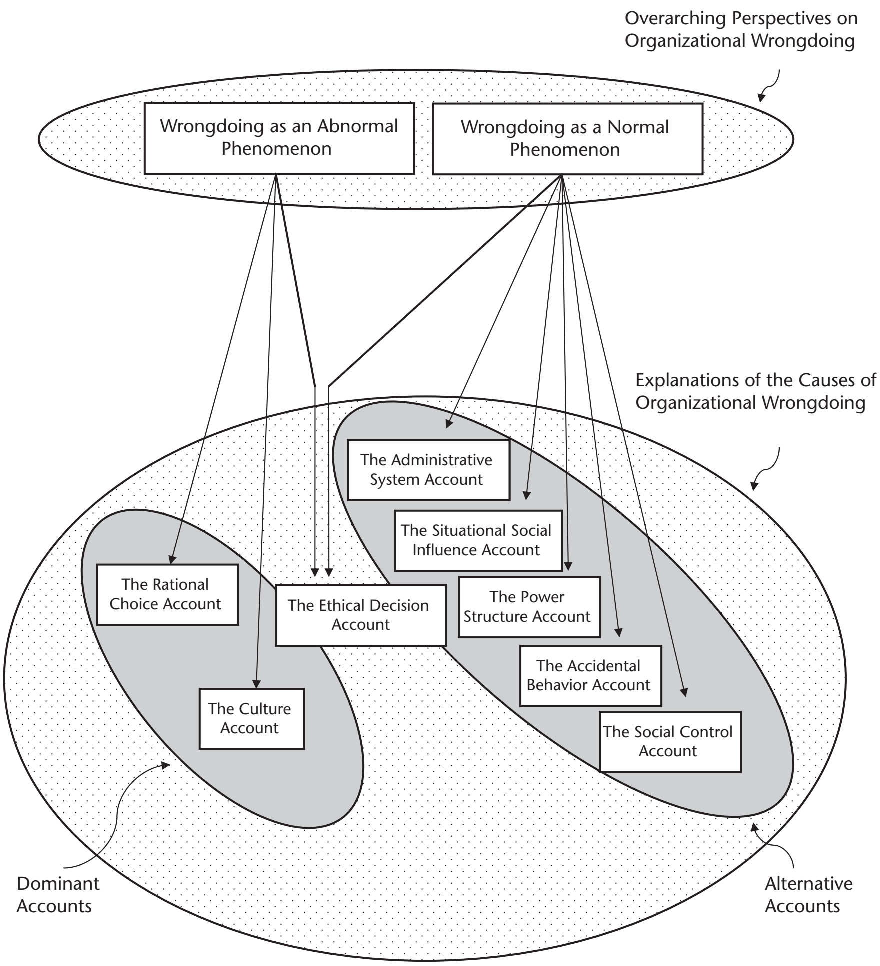

Figure 1. The Relationship between Perspectives, Approaches, and Explanations

Fifth, I illustrate the eight explanations of organizational wrongdoing using rich case study materials. Much of the research on organizational wrongdoing uses quantitative empirical research methods, in particular laboratory experiments and field surveys. These methods have proved useful, especially in elaborating the dominant explanations of wrongdoing. But I believe that qualitative case analyses of the sort presented here are useful and in some respects necessary if we are to fully understand the causes of wrongdoing, especially those causes apprehended by the one bridging and five alternative explanations of wrongdoing favored in this book.

Finally, I consider the practical implications of the full range of explanations of wrongdoing examined in the book. Most organization scholars consider the study of organizations to be an applied one and thus believe that they have an obligation to study organizational phenomena with an eye to developing practical applications (Thompson 1956). For the most part, organizational scholars have studied phenomenon with an eye to improving organizational efficiency and effectiveness (March and Sutton 1997; Augier, March, and Sullivan 2005; Khurana 2007). But the earliest scholars exhorted organizational scientists to conduct work that can reduce the incidence of corruption (Boulding 1958). And many who study wrongdoing offer prescriptive suggestions. I will lend a hand to this effort.

In the next chapter, Chapter 2, I elaborate in more detail the two overarching perspectives on organizational wrongdoing and the two approaches to analyzing the causes of wrongdoing. I also articulate more precisely the relationship between these perspectives and approaches and the eight specific explanations of organizational wrongdoing considered in the book. In Chapter 3, I develop the definition of wrongdoing that guides my examination of the causes of wrongdoing. I also explain how theory was developed and data were analyzed in the course of writing the book. In order to understand the causes of a phenomenon, we must have a clear definition of the phenomenon, a strategy for developing theory, and a method for marshalling evidence to do so. I present the eight specific explanations of organizational wrongdoing in Chapters 4–11. In the final chapter I consider the practical implications of the explanations of wrongdoing considered in the book.