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ORIGINAL ARTICLE

Post-scandal Organizational (Dis)order: A Grounded-Theory Approach Shifting from Murphy's Law to Safer Regulatory Environments

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Abstract
The literature shows that, in the wake of negative media exposition, organizations' self-regulation tends to be strengthened. We investigate such motivation from the perspective of the psychosocial consequences in executives' and organizational self-confidence. A grounded-theory approach supports findings from 27 different events described by top-level executives from major publicly traded organizations. Their testimonies document that scandalous episodes, when they occur, leave a trauma footprint within the organizational and individual consciousness because of the perceived post-event humiliation, remorse, guilt, and fear. The paradigm of reliance and trust in the designed structures is severely altered. In turn, a climate of excessive self-regulation explains the recovery from the traumatic experience. New boundaries for regulatory balance, also called "the confidence zone," exists until design changes coalesce with organizational blame to create the perception that reputational safety has been achieved. Fears of subsequent media scrutiny are mitigated by the perception of moral safety based on governance. Consequently, the over-regulatory response comprises the organizations' healing process as they recover from the psychosocial trauma caused by media exposition.

Keywords Organizational trauma · Self-regulation · Organizational change

Introduction

Media scandals that jeopardize the reputations of major corporations occur constantly. They may be directly caused by the corporations' own actions or be triggered by external parties. Organizations often respond to scandals by making public announcements citing the strengthening of their governance environment (Chakravarthy et al. 2014; Zavyalova et al. 2012). The argument is buttressed by the assertion that corporate governance conforms to best practices, such as the framework articulated by bodies such as the Committee of Sponsoring Organizations (COSO 2013). Yet, the executives' motivation for self-regulatory heightening and the forces behind this transformation as companies' officials warrants analysis.

Ample organizational change literature concentrates on understanding the metamorphic elements involved in the (re) evolutionary process of business structures in non-scandal settings (e.g., Oreg et al. 2011; Tsoukas and Chia 2002). The narrative usually invokes forces against uncritical organizational conformity or compliance (Armenakis and Bedeian 1999). By condemning obsolescence, internal adjustments to the regulatory design seek to offset environmental adversities (Hannan and Freeman 1984). For instance, after deficient financial performance, organizations revisit their strategies and formulate improvement plans to turn hardships around (e.g., Armenakis and Bedeian 1999; Oreg et al. 2011; Tsoukas and Chia 2002). In this case, operational evolution explains executives' motivations.

When the source of transformation emanates from a regulatory enactment, the internal efforts may have more of a compliance orientation rather than functional significance. Under mandatory pressures, complying with regulations becomes the primary driver in order to see that business stability remains uncompromised (Armenakis and Bedeian

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1999). The implementation plan is executed exhaustively, while it is unlikely that the strategic path will be closely reexamined (Tsoukas and Chia 2002).

These drivers—intentional or forced—are evidence of radical outcomes. What remains uncertain is the connection between not-legally-binding forces (such as negative media events) with the reputational restoring process once companies' executives confront the negative media exposition. Moreover, since society judges firms' behavior, there is a reasonable doubt in connecting executives' motivations and their over-regulatory responsive efforts from the lens of organizational change and crisis management literature.

The justification behind corporate officials' reactions and the transformation that organizations experience stimulate the primary and secondary research questions: (RQ1) What circumstantial factors motivate executives' over-regulatory efforts noticed in Zavyalova et al. (2012) when the firms they work for are involved in scandalous events? Moreover, (RQ2) what key transformations are experienced by these organizations and its members as consequence of public scrutiny? To address such inquiries, this study applies a grounded-theory methodological approach. Such qualitative methodology results appropriate because of the need to draw a reality-based experiential abstraction from the lens of those who were involved in the event. The gathered data come from 27 testimonials that provided valuable insights into individuals' experiences, activities, or reactions as members of organizations who overcame their companies' media exposition.

The balance of the paper is organized into four sections: the first segment provides a brief literature review to frame the central dimensions. The second details the research methodology. The third section reports the findings from the collected testimonials. The paper concludes with a broader discussion of the issues presented by this research.

Selected Literature

Scandals and its Social Dynamics

Traditional academic literature defines negative reputational events (commonly known as "scandals") in multiple ways. Media scandals may be the result of the intentional acts of individuals who do not share the organization's concern over risky behaviors (Molotch and Lester 1974). A different perspective evolved the concept by adding unethical flaws or "rotten apples" existing inside of organizations (Cohen 1993). Recently, Coombs and Tachkova (2019) complemented the definition of scandals with the social outrage component demanding social restitution with an adverse verdict exceeding the traditional communication crisis.

This manuscript defines scandals as a reputational threat that has materialized from the point of view of stakeholders whereby they question the morality of the organizations. Reputational threats in this sense denote unexpected events capable of endangering the trust that external observers normally accord with organizations, replacing them with moral outrage and a demand for restoration (Coombs 2007; Coombs and Tachkova 2019; Jimenez-Andrade and Fogarty 2019).

Scandals are fed by the social attention they attract. Blair et al. (2006) refer to the allure of "sex sells" to denote that news should have a provocative component to catch readers' fascination. Media make profits from disseminating corporate wrongdoings as part of their business model (Miller 2006). Their success is measured by their ability to create "sound bites" or "breaking news." Press editorial boards have a tendency to promote controversial and outrageous events in order to attract readers and, therefore, fund their ongoing operations (Blair et al. 2006).

In the scandals setting, the intensity of media exposition magnifies the public's perception of the reputation of organizations. The impression that stakeholders receive could severely bias their judgments (Gentzkow and Shapiro 2006). For example, when the media attention focus on negative behavior, the social verdict ends condemning the firms, even when the reputational value is consistently positive (Westphal and Deephouse 2011; Maynard and Freese 2012).

Organizational Trauma

Social image and reputational value of organizations are built and constructed over time (Fombrun and Shanley 1990). Stakeholders' verdicts to scandalous episodes reduce the levels at which they bond with the organizations (Cohen 1993). Signs of trauma in organizational consequence of intense media exposition vary from a decrease in economic interactions up to a complete withdrawal that could jeopardize their financial stability (Jonsson et al. 2009). As sign of rejection, consumers and suppliers may decrease or eliminate their business interactions with the exposed firm (Demiroglu and James 2010; Dollinger et al. 1997; Helm 2007). Once broken the bond, organizations confront the idea of never regaining their pre-event reputational value.

The loss in value of the firms' social image translates quickly in an economic downturn in their financial performance (Frandsen and Johansen 2011). Shareholders and lenders in capital markets are also forced to react in such scenarios to actual or expected securities price movements (Black et al. 2000; Chung et al. 2003). A persistently unattended event without an effective intervention to restore the reputation could translates into the termination of the organization as a viable entity (Molotch and Lester 1974). The over exposition may lead to the business termination (Sellnow and Seeger 2013; Suchman 1995).

Despite the financial sustainability issues, organizational employees must also confront the media exposition consequences in their working environments. Media crisis, at the human capital level, negatively alters the affective, cognitive, and behavioral reactions of its members (e.g., Coombs 1998; Korn and Einwiller 2013; Mazzei et al. 2012). Furthermore, intense media negative coverage has profound emotional implications on employees compromising the bond between them and their organization (Korn and Einwiller 2013). However, as noticed by Korn and Einwiller (2013), employees exhibit a tendency of positively copping with this crisis when the situation is promptly managed by the organization.

Scandalous events challenge each firm's responsiveness in the process of overcoming the social, economic, and human resources setbacks. Prolonged optimal responses may force firms to absorb higher unexpected costs such as additional litigation risks, liquidity issues, expensive debt, and/or loss in human capital (Davies et al. 2004; Dellarocas 2003; Keh and Xie 2009; Kotha et al. 2001; Mahon and Wartick 2003; Solove 2007; Walsh et al. 2009). The restoration of the reputational value becomes the highest priority to corporate executive personnel for finding viable solutions to mitigate the unnecessary consequences of over exposition.

Executives' Overcoming Incentives

Literature on financial and non-financial incentives help for explaining overall executives' incentives. On the compensation side, there is an expectation that executives will efficiently address the restoration process promptly and diligently because their personal financial interests are aligned with those of the shareholders (Eisenhardt 1989; Dalton et al. 2007). Non-financial literature, such as is found on the subject of corporate citizenship, poses on executives' responsibilities to perform consciously independently of their economic compensation as the 'right thing to do' for shareholders and stakeholders (Carroll 1998; Fombrun et al. 2000; Gardberg and Fombrun 2006). However, both streams (financial and non-financial) do not address the emotional component for explaining executives' behavior, which may arise because of media exposition as employees operating in the organization.

Crisis communication literature provides some indicators of the emotional repercussions on executives' behavior. Zavyalova et al. (2012) explain that when executives are unusually intense with press releases detailing procedural actions, they are exhibiting remorse of the wrongdoings. Major environmental events tend to generate abnormal behaviors in companies' agents: for example, in acquired firms, post-acquisition events intensify executives' perception of power and resistance (Pickering 2017). In managing crises, officers are more likely to reduce their stress levels by favoring innovation and creativity in the repairing plan to mitigate existing ambiguity (Gaudenzi et al. 2015; Hegner et al. 2016; Wolbers et al. 2018). Ethical failures (such as corruption) may promote in corporate personnel a self-condemning psychological guilt (Smith-Crowe and Warren 2014; Greenbaum et al. 2020). Consequently, there is a reasonable doubt as to whether critical events will imprint in organizational officials' psyches some conditioned response mechanism, as it is stated in the primary research questions.

Over-regulation Response

In lieu of the event, executive personnel acting as agents face the responsibility of offering strategic responses to mitigate unnecessary costs. Crisis management literature argues a tendency of firms to communicate publicly the endurance of corporate governance after negative press exposition (e.g., Chakravarthy et al. 2014; Zavyalova et al. 2012). Firms' press releases include enhancing Board of Directors independence, monitoring systems, employees' turnover, transparency, and internal controls (Chakravarthy et al. 2014).

Scholars have conducted several studies about the effectiveness of adhering to principles of over-regulation. For example, depending on the board of directors' composition, the likelihood of financial statement fraud can be reduced (Beasley 1996), and strengthening controls can inhibit managerial fraud (Caplan 1999). This is largely because, when governance brings its full attention to structural problems, operational effectiveness increases (Schiehll et al. 2018). It remains to be seen, and presented as the secondary research question, whether the self-regulatory efforts are linked (and if so, how) to the plausible effects that media exposure has on executives' behavior.

Methodology

Most reputational studies explore scandals based on archival sources, usually supported by public announcements data (Chakravarthy et al. 2014; Zavyalova et al. 2012). However, their conclusions are detached from the emotional experiences of corporate personnel who live through the media events. Organizations' justification of their reactions is limited by the formal text of the announcement, making peoples' personal experiences practically invisible. Therefore, this research seeks to capture the less public, less messaged experiences of key corporate personnel. An attempt to identify people employed with organizations under continuous media scrutiny was made so that the individuals most familiar with the reputational issues could be included (Fombrun and Shanley 1990).

Although some studies implemented experiential field techniques, their conclusions are limited to one specific organization as unit of analysis (Heugens et al. 2004). Such a design would severely narrow our appreciation of the role of the environment faced by decision-makers. In order to avoid such limitations, the study collects testimonies from individuals of different organizations to allow patterns to emerge. The exploratory methodological approach that analyzes real qualitative experiences by comparing individuals' experiences is grounded theory (Glaser and Strauss 1967). The goal is achieved by conducting semi-structured interviews with a consistent set of questions to theoretically sampled individuals with similar contextual characteristics—such as roles, emotions, or familiarities, in order to obtain a comparable set of data that allows behavioral patterns between them to be observed (Charmaz 2006).

Sampled individuals, who answered several open-ended questions in an interview format, worked as executives for major publicly traded organizations in the U.S. securities market. This deems appropriate because, as remarked by Treviño et al. (2014), in the experience of officers, their interventions mitigate firms' reputational pressures in media crises. Individuals' roles and firms' characteristics comply with the research objectives as argued by Morse (2010): participants were fluent in English with limited cultural variations (U.S.-based firms), had sufficient professional experience (an average of 16.5 years), had an equity-based compensation as part of their salary packages, and were directly involved during the studied phenomenon. In addition, to be eligible they must had active participation during the post-event organizational efforts with at least one reputational duty as encouraged in academic literature (Khan 2019; Treviño et al. 2014). Testimonies were collected using the snowball recruiting process.

A basic archival investigation was conducted before each interview. This validated that participants would provide details of their own experiences in accordance to the media story. If participants did not mention the reputational episode, it was asked directly as one of the probing questions as can be observed in the Appendix 1 Interview Protocol. As anticipated, the gathered experiences were rich and vast (Charmaz 2006). Even though many examinations could be conducted, the analyzed data in this study primordially focused on the qualitative examination applicable only to the research questions and its repercussions.

The final sample consisted of 27 individuals, each representing a different organization in these industries: financial services, consumer goods, and professional services. Each group contained nine participants. Participants signed informed consent agreements and were promised confidentiality as approved by the institutional IRB. The companies sampled collectively exceeded \$8.7 trillion in assets in 2015, and revenue for these companies (again 2015) was \$1.1 trillion. Based on data collected in 2016 and 2017, the average size in assets per organization was approximately \$322 billion. Table 1 contains a summary of interviewee characteristics.

The data were analyzed in three stages. The first stage consisted of open coding, done line-by-line without any pre-determined coding and order (Glaser 1992). Open codes then were compressed and compared across participants' responses into axial codes in the second stage. The compression stage presented an intense comparative analysis between participants' responses (Corbin and Strauss 1998), from which, 34 axial codes were drawn. The final stage includes the identification of the theoretical or selective codes in a hierarchical abstract form. This selection emerges from observed patterns across participants' testimonies (Corbin and Strauss 1998). Inter-rater reliability consisted of a secondary blind coding process of six interviews (three from each group) by a Ph.D. candidate. Coding differences represented less than 10 percent of the total, and the reconciliation process did not reflect major relevant differences. From this exhaustive process, five main findings emerged.

Supplementary Analysis

To enhance the quality of the findings, a supplementary analysis is offered to triangulate findings from two different qualitative researching methodologies (Denzin 2007). This is achieved by contrasting researchers' manual coding results with those derived from automatic coding techniques following the systematic triangulation protocol found in Flick (2004). The main objective is to compare whether the themes found by authors are consistent without their intervention. Because participants' testimonies contain an emotional component, their experiences also were analyzed using content and sentiment analysis (Loughran and McDonald 2016). This supplemental analysis offers an extra layer of reliability of the presented findings.

Following the Loughran–McDonald word list and the software Nvivo Pro 12 (QSR International 2018), responses which lacked interviewer's comments were subject to a textual analysis for automatic coding (Loughran and McDonald 2016). From this process, the text was transformed into two different outputs: the sentiment of the text (*sentiment polarity:* positive, neutral, and negative with percentage of confidence) and the words—content—which appeared most frequently in the text (*frequency*).

For the sentiment analysis, each transcribed testimony was partitioned into two segments: the media events and the transformation processes. The media events refer to the times when participants referred to the causes that triggered the event. The transformation processes

Table 1 Participants by role and industry

	Media event	Position	Industry
1	Environmental damage	Assistant controller	Equipment and machinery
2	Bribery	Chief financial officer	Heavy construction
3	Discrimination	Risk manager	Money center bank
4	Money laundering	Compliance officer	Money center bank
5	Environmental damage	Chief financial officer	Property and casualty insurance
6	Child labor abuse	Head of global sales	Textiles and apparel (footwear and accessories)
7	Monopoly behavior	Compliance officer	Private equity
8	Child labor abuse	Chief risk manager	Pharmaceutical
9	Cyberattack	Chief financial officer	Scientific and technical instruments
10	Bribery	VP/Financial controller	Personal products
11	Fraud	Chief sales officer	Communications equipment
12	Accounting failures	Global reputational partner	Accounting advisory services and tax consulting
13	Illegal transportation	Operations manager	Air delivery and freight services
14	Bribery	Chief sales manager	Discount and variety stores
15	Accounting failures	Reputational managing partner	Accounting advisory services and tax consulting
16	Tax fraud	Senior global partner	Accounting advisory services and tax consulting
17	Fraud	Sales manager	Money center bank
18	Fraud	Compliance manager	Security and protection services
19	Accounting failures	Managing partner	Accounting advisory services and tax consulting
20	Money laundering	Chief controller officer	Money center bank
21	Fraud	Chief internal auditor	Foreign money center bank
22	Tax fraud	Compliance manager	Investment brokerage (national)
23	Production failure	Operations manager	Power plants
24	Money laundering	SVP/Risk manager	Accident and health insurance
25	Bribery	SVP/Asset and investments	Asset management
26	Child labor abuse	Global sales manager	Textiles and apparel (footwear and accessories)
27	Bribery	VP and controller	Discount and variety stores

encapsulated all the subsequent events post-scandal described during the interviews. The outcome analysis produces the sentiment polarity (positive, neutral, and negative) expressed as a percentage of confidence. Appendix 2 contains some examples of interview excerpts noting their polarity and the percentage of confidence. Findings from the sentiment analysis of the transcriptions help bolster the contextual validity of the grounded-theory findings.

The content analysis of the transcribed text consists in observing the frequency (and relative frequencies) of the three-word phrases repeated most often. Only the 10 most-repeated phrases are included in the analysis, and their frequency of use contrasts with the grounded-theory comparative themes to triangulate both findings. This taxonomic assessment (from manual and mechanical methodologies) reinforces the validity of the line-by-line analysis and open-code compression during the inductive qualitative process of the grounded-theory approach.

Findings

The central finding in this study evidences that the efficiency in the reputational recovery strategy after scandalous episodes is mediated by the emotional trauma perceived by executives, and how these influences the self-regulatory organizational response. The traumatic experience from psychosocial factors echoes in their guilt and embarrassment due to media exposition. Because media events evidence the vulnerability of possible governance design, executives' faith in such structures is compromised; excessive self-regulatory behavior counteracts this lost confidence as part of the recovery from the traumatic experience. New boundaries of regulatory balance, or confidence zones, exist until organizational design coalesces with organizational remorse to the extent that the perception of organizational safety is achieved. Fears of subsequent media scrutiny are mitigated with the perception of moral safety achieved by heightened from governance. Ample details of these findings are described in the subsequent segments: grounded comparative findings followed by an automatic mechanical coding for supplemental analysis.

Grounded-Theory Findings

Finding 1. Scandalous Media Episodes, When They Occur, Create Trauma within the Executive's Consciousness, Evoking Emotions such as Humiliation, Remorse, Guilt, and Fear

Although participants were asked for their experience as organizational members dealing with the events, their immediate responses included a condescending tone. Instead of making a distinction between the organization and themselves, testimonies embraced the consequences of the events as personal failures. Because there is an association between the individuals and their organizations, executives appropriate the wrongdoing as their own. In fact, in many cases, the distance between the participant and the party driving the wrongdoing was substantially large, yet no clear separation divided the reputations of participants and organizations. Four foci (emotional aspects) illustrate the executives' perception beyond the company's reputational failure.

Finding 1.1. Shame and Humiliation Follows the Event Participants perceived a weakening of their reputations because of their firms' media scrutiny. Exposing the wrongdoing to public judgment led them to believe that members could be responsible, either by causing it or not preventing it. The negative repetition of the firms' name also constitutes damage to members' reputations. Participants justified the perceived humiliation with testimonies such as these:

> People were embarrassed. It was a huge catalyst. [Company name omitted] is a company, but it's made up of humans, and people take pride in what we do at work. Many of the executives didn't know what was happening but they'd had to deal with that.

An alternative participant explained the collectively perceived shame as follows:

> I want others to view us in a good light. I certainly don't want anything negative out there said about our company or any bad light shined upon us out there. But it happened. We as members have a reputation piece and it was jeopardized. We needed to make money but our reputation extends beyond just shareholders.

Finding 1.2. Remorse and Blame for not Doing What Should Have Been Done Prevail Executives challenge their actions as members of the organizations because of their ethical compasses. Although participants were unlikely to have been the sources of the events, they associated personal negligence to a failure to prevent the happenings. Because of the existence of in-place systems, the threat-detection mechanisms alerted people to the sources of the scandals, but the human component failed to intervene effectively. Consequently, there is a widespread feeling of failing a moral and operational responsibility to protect the organizations' integrity. Here is one testimony from one participant in the pharmaceutical industry explaining an ignored alert:

> There was definitely a reputational impact there, where we have to make sure that we market to customers appropriately because events drive panic. Events can drive a mindset. Events can drive consumers to disengage with your brand because of an incident. Before that, it was just a flag and we successfully ignored it.

Even staff who had exhibited ethical thinking about organizational behavior prior to the events felt remorse. The rationale seen in these testimonies applied also to the acknowledgement of the responsibility. None of the participants indicated indifference or avoidance to the exposition, and individuals' attitudes were loaded with moral arguments. The sense of duty and blame is evident in testimonies such as this: "You can't just take the positive pieces of being a global company and making a lot of money without taking accountability for everything else that comes with that."

Finding 1.3. Collective Guilt Compounded the Unexpected Damages In a similar vein, executives condemned their own actions as having caused damage. Testimonies did not attempt to claim any innocence; instead, the participants refer to a shared sense of guilt about the consequences of the event. The complexity of the events often resulted in severe and unexpected side effects, for which companies' officials claimed culpability and collectively accused themselves. For example, one participant said, "Somebody got hurt. People were seriously injured because of us." Another testimony detailed sentenced the ethical liability in the following way:

> Because whether or not we owned those facilities, we probably drove close to 50% to 70% of the business that was done out of them, so we're accountable. What we had to do was first just stop and say we're accountable.

Finding 1.4. Executives Fear Losing Everything They Have Built over the Years Participants emphasized both the importance of the reputation-building process and the fragility of it. In this sense, the experiences influence executives' and firms' futures because the mistrust could spread widely among stakeholders. Executives exhibited emotional fear that the events could disproportionally alter future expectations in negative ways. One participant observed the following:

> If you don't trust me, then I will not sell any business and I won't have a job, so reputation is absolutely critical.

Neither ignorance nor carelessness about their reputation was present in the testimonies. Their stories already spoke to the value of constructing reputability. One participant noted, "We want very much for people to have a positive association with the name of our firm when you hear it, and we are worried after that about any foreseeable outcome where our name is associated with something bad." To them, fear of losing the shared reputations of both the organization and the individual created the most concern. To illustrate this reaction to wrongdoing and the fear of losing their reputation, one of the participants related the following:

> Imagine if you continue business as usual with a corrupted client, people … And it's common to believe that the company that is selling their products as usual is corrupted, as well, because you need to be concerned about how they are managing their business and how this impacts you.

Finding 2. The Paradigm of Reliance and Trust in the Designed Structures is Severely Challenged

Testimonies correlated with a variety of corporate scandals: there was no single unique source. However, a pattern of failure evidences vulnerabilities in the organizational design. Therefore, executives' confidence in internal structures is severely compromised. They no longer trust in the company's ability to offer the needed protection to perform their routine activities. Weakness was attributed to the ability to detect and monitor irregular behaviors along with unenforced or restricted ethical environments that inhibit misbehavior.

The failure of detection and monitoring systems provides an alternative source of events. Here, organizations' structure for detecting potential process flaws did not function as expected, and did not reveal inconsistencies above normal levels. This situation allows an external individual or entity to first detect the abnormality, and then make an early release of information to the public. The detection failure could be found in a quality or safety control at any moment across the productive process. The common pattern was to refer to it as "a safety issue" or "an evaluation system [that] failed on that component." One person even expressed, "We don't know how it came out in the media."

Similar to a detection failure, monitoring systems can also fail in alerting organizations regarding a potential threat. The source of this could derive from an employee, supplier, customer, or anyone with corrupt intentions. Scandals occur because organizations fail to anticipate the potential for misbehavior, which quickly translates into the inability to observe misbehavior until it has taken place. One interviewee in the services industry described when the board of directors disregarded the early stages of the CEO's odd actions. Another participant's organization (in consumer goods) did not notice the main supplier's human resources misconduct in Asia. A financial institution ignored information previously reported by lower-level executives. A different participant in the financial system neglected to inspect a customer who would later be labeled as a terrorist and the beneficiary of money laundering. Organizations failed to detect and observed the tell-tale behaviors which, in retrospect, seem very obvious.

Most scandals have a component of ethical transgression, which is more likely to trigger public attention and to create a demand for wide-net retribution and accountability. However, the difference between actual scandals and those successfully prevented resides in the application and enactment of ethical principles. In environments where ethical concerns are lax, unenforced ethical codes encourage internal trespassers. Ethically restricted environments also offer greater exposure to outsiders' misconduct. One participant's testimony from a consumer goods company said, "Our biggest client had this scandal in which some of their managers and senior managers were accused of corruption." The organization was tarnished due to "guilt by association." Another example occurred to one participant from the financial services industry: "One of our joint ventures was accused of money laundering." As a result, his organization became the public face of the scandal, as did three consumer goods companies which experienced similar situations with suppliers in Asia. Before the scandal, all of these organizations had displayed limited concern regarding ethics and had restricted attention to the ethical behavior of their partners.

Some companies experienced scandals due to regulatory compliance issues, since organizations decide internally whether to comply rigorously or minimally. The latter approach, by organizations overwhelmingly focused on achieving competitive advantages, can be said to have triggered these compliance scandals: the pursuit of such advantages created incentives for unethical behavior. A "play by the line" attitude, focused on doing only what is expressly required for compliance, increased the participants' public opinion exposition. This is especially problematic in areas where the "line" that separates legal and illegal is obscure. For example, one participant in the financial services field described this issue:

> A few years ago, we were fined by the Commission [European Competition Commission] for antitrust violation by one of our portfolio companies. By following up [referring to the fine] on the developments in various compliance fields, including anti-competition…

Testimony from a participant from the professional services industry revealed this: "The client was accused of abusive tax shelters, but the authorities blamed us as a firm, so the media did, too." Another participant from financial services mentioned, "The government fined us because our clients used our services for illicitly transporting their products." Her organization had only randomly complied with federal regulations. Citing a similar case, another financial services participant said, "We didn´t track the money before." Consequently, the bank was accused of money laundering.

A brief example of the lack of trust in the systems in place at the time is the following testimony:

> So I'm not saying it would prevented those issues, but it could surely helped to detect them, to come forward early in the process, so that people know that they can come to us if there is an issue so that we can help them and also try to assess our own situation.

The failure of such lax systems to detect promptly threats before they come to the attention of outsiders means that executives lose faith in them. One participant expressed this concern by saying, "If you don't trust me, then I will not sell any business and I won't have a job." Another testimony stated, "Sales people do not know the concept or are not aware of things that they do that are contrary to the law." Similarly, another testimony included this: "We needed to understand if the buyer was trustworthy or not." Consequently, the paradigm that the system will serve as a shield no longer applies in executives' minds.

Finding 3. An Attitude of Excessive Self-regulation in the Reputational Value Creation Acts as Catalyst for Rebuilding the Confidence as a Recovery Measure from the Dramatic Experience

The event-responsive mechanism aids the self-trust recovery. Executives no longer feel safe with existing structures: there is a widespread perception of lack of control because systems failed to handle properly a reputational threat. The most they can do to restore some of the lost confidence is to erect defensive mechanisms against scandals. Participants review their systems process like this:

> Something wrong happened along the way. In order to be sure, you needed to stop, then be sure that everything was okay, that you were doing nothing wrong, and then you could evaluate if you wanted to continue doing business with this client.

Another participant similarly expressed the assessing efforts within the company to test the installed protocols for reinforcing the reliance in the structures or readapting them, as verse:

> Processes were revised, like with a big lens to make sure that we weren't doing businesses in the wrong way. All processes were revised.

Testimonies referenced the fact that some systems are considered essential to protecting the firm. For example, the representative of one firm said it focused on enduring the tightened customer service quality control mechanisms. Those who had experienced technological breaches strengthened the alerts issued by their detection systems:

> Safety is now spread through not only, it's focused on not only within our company but also people outside of our company. Vendors, for instance. We ensure that they are, whenever they board our boats or are doing work on our boats, we ensure that they're abiding by all our safety rules and regulations.

The over-regulatory efforts concentrate on repairing the confidence. By removing potential doubts about vulnerability, the systems' expected reaction is to defend against future perpetrators. The self-protective process creates an aggressive, all-inclusive system that seeks to anticipate threats and leaves little room for error, even if this means reducing or decreasing business interactions. To illustrate this, one testimony explained, "Along with that is a code of conduct expectation. We expect them to behave a certain way, and if they don't, contracts can be voided." Another participant related the following:

> One thing is that it is new, and I will say happened in the last couple of months is, a policy on what we deem as high-risk organizations and so trying move away from those types of things, like the payday lenders or things of that sort, and of course adhering to all of the various policies and procedures and regulations.

The pattern in participants' experiences show a lower tolerance for possible failures. The skepticism about "leaving things to chances" or to "a reasonable likelihood approach" turns into more prospective and objective behavior. The justification is to leave unnecessary or relevancy-ignored risks out of the system process. Potential failures became legitimately relevant, and assurance becomes a priority to eliminate future regrets.

> This compliance program is indeed kind of a way to, even if they don't prevent the issues, that they change a bit the focus, or at least it can help portfolio companies to understand that these kinds of activities are not allowed. I mean, even assuming that the activities that

> were employed were not allowed. So I'm not saying it will prevent those issues, but it can surely help detect them, to come forward early in the process, so that people know that they can come to us if there is an issue so that we can help them and also try to assess our own situation.

A firm that suffered from an international corruption event, and endured the monitoring behavior of associated members, led its participant to describe the following:

> We're continuously assessing our executives to make sure they're in compliance with the regulations to behave ethically to maintain our reputation. Everybody has to acknowledge every year. We have trainings. We are now deploying, rolling out, a compliance training online regarding certain code of conduct issues.

In the participants' testimony, key transformation catalysts refer to the highest reputational vulnerability in their value creation process. For example, since the media exposition includes customers' data security breaches, one participant explained the process of protecting the information technology systems as following:

> Due to all of the data breaches we've had in various companies, the compliance is now a requirement or necessity, to protect the customers' data even more rigorously.

Over-regulatory efforts are not limited to the organization as an isolated business unit. The compliance adherence attitude includes also their key stakeholders as part of the organizations' efforts. This is because although the company was not necessarily liable for the event, not including them may aggravate the ongoing incident. Subsidiaries, commercial partners, customers, suppliers, and capital providers lead some of the common referrals in participants' testimonies. A participant whose company experienced a major reputational event (financial fraud allegations concerning an acquired firm) commented on the inclusive scope of systems' endurance as follows:

> Deriving from that, we started to build a framework whereby we would collect certain policies, we would collect ways to establish a compliance program, for our portfolio companies. So we tried to develop a standard, well, a framework of certain basic policies that we collected throughout our service providers, on the Internet, what have you, and we tried to give them the bricks to build their own compliance program.

Reputational value protection stimulates preventive proactive efforts to include in their compliance scope those who could compromise subsequent similar events. A participant from a company that had incurred money-laundering accusations where one of their clients was responsible experienced the following transformation:

> There are a lot of things in place that people who are our customers should adhere to once they are on boarding a customer. Now we need to know what they are doing, to make sure that there is nothing illegal.

Finding 4. New Boundaries of Regulatory Balance, or a Confidence Zone, Exists Until Design Changes Coalesce with Organizational Blame to the Extent that the Perception of Safety is Achieved

The event, as a source of change, causes a chain reaction in terms of the willingness to improve system structures; however, the desired transformation envisioned a more responsible and conscious organization. Over-regulation helps to raise confidence by reordering system structures. For example, the enhancement monitoring or detecting mechanisms help companies feel less vulnerable to being unaware of potential flaws. Relieving the mistrust becomes the target goal. The perceived confidence after updates have been made can be seen in the following testimony:

> Today, the company is very good about ensuring that managers are aware of who's completed the training early and who still has to complete the training to ensure that everyone completes the training before the deadline. Not only is it the middle manager who may receive the report, but also the executive of the organization may receive the report so that they know that these individuals still need to take the training.

Testimonies refer to an acquired or rebooted level of confidence that their duties can be performed with some level of trust. They rely on the system to protect them from similar events, and know that system failures may have severe consequences. This evolved system may or may not contain elements similar to the previous one. Only those that passed the scrutiny of the new paradigm (the safety net) would remain or be enhanced. Those lacking protective reputational mechanisms were installed. To illustrate this, one testimony cites the following:

> It wasn't just a matter of, for us, shifting what was happening in that plant, right? That's very important. Then there's also, what does that say about the mindset that we had, right? So how do you take that incident and start to create a lens around other things that may also cause consumers to think about your company differently?

In their experience, if the problem source possessed some element of social responsibility, the new confidence would reflect that:

> Then, corporate responsibility also had its place in areas like diversity, inclusion, etc., but that's one of the biggest things that happened was this corporate responsibility leadership.

The media exposition crisis opened a window of opportunity to revalue the installed environment, and some transformative governance efforts included a recalibration of moral foundations. Organizations had the chance to expand their vision from purely financial considerations to encompass ethical standards. The ultimate goal becomes the improvement of their own confidence in the system. One participant explained that his company's confidence was supported by more sophisticated and evolved structures:

> Nowadays we have and enforce five core values because they are a big part of who we are in defining our identity and how we can quote ourselves. The first one is integrity. Integrity to us means no lies or secrecy, so we deal with information and we want to communicate with you in a way that we don't withhold information and we don't tell you something that we know to be untrue and we think that is the foundation of any sort of long-term relationship. The absence of integrity in a business model is going to fail. The second of five is "the Golden Rule," so I want to treat you in a way that I would like to be treated and we want to make sure that there is a symmetrical relationship and we get along. The third core value is excellence which means, to us, continuous improvement. We have to get better. The fourth is objectives. We get very clear about what we are trying to accomplish. The fifth is profits: if we don't make money, we are out of business. So, these core values guide our behaviors and, of the five, the most important is integrity.

Finding 5. Fears of Subsequent Public Scrutiny are Mitigated by Improved Governance

Following the events, organizational personnel often feel keenly aware of the scrutiny they receive from outside observers. Seemly, organizations imprint in executives' mindsets the fear of social judgment from media exposition. In the testimonies, the news is referred to as a vehicle for harming reputational value when the information that they receive is not adequately channeled. Improved control systems contained contingency plans for providing users certain reliability on the redesigned processes, including communication strategies. This offers users certain reliance on the structures and the safety net that allows them to thrive and move forward. Testimonies eloquently describe their moral safety net as follows:

> There's continuously media coverage of [company name redacted]. I'm not really sure we continuously, we're a public company so we're continuously being scrutinized. There is no one singular thing. Every day, we're in the news. But we are doing the right thing.

The delicacy of large multinational organizations' reputations, especially when subjected to media exposure, forces organizational members to find new comfort levels in their governing structures. To such an extent, participants refer to an evolution of media control that is justified by the fear of further scrutiny. The awareness of the reputational value is widespread across the organization. Their alternative is relying on their governing systems and structures:

> My company can often attract those who are boycotting or picketing outside of the company's main headquarters. It's easy to get caught in that frame, but again, the company executives continue to stress the importance of not speaking to the media. The company, if there's any type of media event, the appropriate executive communicates to all executives that it's very important for us not to speak to the media but to direct them to our corporate communications organization.

Another participant likewise referred to the stress of attention attracted by their type of organization and the type of event which occurred. Therefore, there is a blind trust in the collective effort: because the reputational damage could spread internally, members of the organization believe it will execute oversight functions better than anyone else could.

> I will say, this particular instance received a lot of media. With all of the media attention, negative media attention that this change received. In terms of the media, the company is trying to ensured or at least ... I won't say "ensure." The company has made an effort to communicate to executives about how we should conduct our self with the media.

Mechanic Findings: Coding Supplemental Analysis

In order to increase the quality and reliability of the findings, transcribed responses received additional textual analysis. Table 2 displays the sentiment analysis results using the automatic coding methodology for capturing the emotional components of the text. Findings show that, overall, the 27 interviews are highly mixed: negative (56%), positive (36%), and neutral (38%). The experiential narrative revealed that interviewees perceived the events as overwhelmingly negative: 66% viewed it as such, while only 16% saw it positively and 28% viewed it neutrally.

Where testimony described the change in their organizations, the optimistic word usage increased drastically:

Table 2 Sentiment analysis polarities

Testimonies	Overall text		Event proceedings		Transformation process	
	Polarity	Conf. (%)	Polarity	Conf. (%)	Polarity	Conf. (%)
1	Positive	55	Positive	12	Positive	72
2	Negative	67	Negative	78	Neutral	54
3	Positive	27	Negative	77	Positive	70
4	Neutral	33	Negative	63	Positive	69
5	Negative	55	Negative	64	Positive	60
6	Negative	44	Negative	75	Positive	56
7	Neutral	56	Neutral	18	Neutral	55
8	Positive	23	Negative	55	Positive	57
9	Negative	59	Negative	67	Neutral	30
10	Positive	66	Positive	20	Positive	60
11	Neutral	15	Neutral	27	Positive	32
12	Neutral	37	Neutral	30	Positive	28
13	Positive	19	Neutral	19	Positive	49
14	Negative	57	Negative	72	Neutral	67
15	Negative	45	Negative	66	Negative	57
16	Neutral	38	Neutral	30	Positive	33
17	Neutral	29	Negative	59	Neutral	58
18	Neutral	60	Neutral	28	Positive	37
19	Negative	64	Negative	70	Negative	39
20	Positive	25	Neutral	22	Positive	50
21	Neutral	28	Negative	45	Neutral	68
22	Neutral	45	Neutral	49	Neutral	33
23	Positive	37	Positive	17	Positive	66
24	Neutral	38	Negative	78	Positive	67
25	Neutral	51	Neutral	32	Neutral	45
26	Neutral	33	Negative	62	Positive	68
27	Neutral	33	Negative	68	Positive	65
Negative (average)		56		66		48
Positive (average)		36		16		55
Neutral (average)		38		28		44

55% reported feeling positively; 48%, negatively; and 44%, neutrally. This analysis supports the theoretical logic: companies first suffer media exposure that participants experience negatively, and then positive countermeasures appear. This supports the manuscript central idea that executives suffered traumatically but subsequently adapted.

Grounded-theory findings were triangulated with a content analysis of the transcriptions. The objective is to assess whether line-by-line coding reveals repetitions across participants' testimonies. The three-word phrases repeated most often (the top 10 times) were compared with the five main findings (and their sub-levels). Table 3 presents the triangulation results. From this, it can be seen that each one of the grounded-theory findings matches with participants' most frequently repeated phases.

Discussion

The gathered testimonies offer a plausible explanation to the post-scandal executives' over-regulatory efforts documented in academic literature (Chakravarthy et al. 2014; Zavyalova et al. 2012). Findings suggest that the exposition caused by media episodes trigger an abnormal self-regulatory response, not because of the public demand, but because of a loss of confidence in structures designed to prevent such mishaps. The perceived emotional traumatic experience forces self-regulatory strategic reactions for containing and overcoming the reputational episode. As a chain reaction, a transformational process accelerates the redesign of internal governance creating a safer working environment for executives to operate. These findings have

Table 3 Taxonomic triangulation between manual and mechanical findings

	Grounded-theory themes	Example of most-repeated mechanic themes (three words)	Top-10 themes frequencies	Relative frequencies (%)
Finding 1	Scandalous media episodes trauma indicators			
Finding 1.1	Shame and humiliation	everybody/people/we was/were affected; company's making less; our reputation was	311	0.920
Finding 1.2	Remorse and blame	was really/severely tough/hard; probably should/could have; to an innocent/someone/	115	0.340
Finding 1.3	Collective guilt	if we had; we did not; should have stayed	259	0.766
Finding 1.4.	Executives' fear	to be treated; compensation/reputation/name wise everybody; would see/observe us/company	110	0.325
Finding 2	Challenge system trust	we thought that; sometimes we look/think; no longer applied/served/worked	223	0.660
Finding 3	Self-regulation for recovery	To make sure; to ensure that; in compliance with	82	0.243
Finding 4	Changes for safety perception	We had to; needed to adjust; the right thing	153	0.453
Finding 5	Fears of subsequent scrutiny and governance	We no longer; we're continuously assessing; turn this around	101	0.299
Total word count			33,797	
Different words			1938	

multidimensional implications for the literature found in organizational change, crisis management, social identity theory, and executives' incentives.

In the organizational change theoretical framework, these study findings argue that the governance evolution consequence of the executives' trauma from scandals represent also a source for organizational transformation. Traditional managerial models introduce as changing forces the reluctance of obsolescence and the mandatory compliance (e.g., Oreg et al. 2011; Tsoukas and Chia 2002). These two, however, rely on the absence of negative media exposition. In Zavyalova et al. (2012), it is noticed the relationship between media corporate wrongdoings and over-regulatory efforts leaving unexplored the behavioral component of firms' executives for justifying their reaction. This study expands such a relationship, arguing that the governance strengthening reaction represents the actual overcoming reputational efforts strategically designed by executives. The implication of this argument would place scandals into a third category for a source for organizational metamorphism promoted by the reputational restoration process.

Within the crisis communication arena, theorists include in their conceptual models the relevance of the strategic response for overcoming scandalous events at the minimal possible cost (Frandsen and Johansen 2011). The theoretical approach emphasizes that the diminishment of reputational value comes from unnecessary over exposition (e.g., Coombs and Tachkova 2019). In this study, the main findings argue that the efficiency in the repairing process is mediated by executives' perceived emotional trauma from the influence of psychosocial factors such as guilt, remorse humiliation, and fear because of the reputational exposition.

In terms of social identity theory, the observed trauma-related signs in executives' experiences provide evidence regarding the reputational bond between organizations and its executives. As conceptualized in King and Whetten (2008), organizations develop reputational value strategies based on connecting individual and shared identities where both parties (executives and firms) can witness and take profits on its intangible benefits—for example achieving long-term ideal goals. In this sense, findings suggest that the value of the connection also creates an automatic responsive mechanism during scandalous episodes because the reputational damages are also shared.

In terms of financial and non-financial incentives, there is a reasonable expectation that executives will act as guardians of the best interests of their organizations in the scandals recovery process (e.g., Eisenhardt 1989; Fombrun et al. 2000; Gardberg and Fombrun 2006). Instead, the gathered testimonies provide an alternative explanation for executives' reaction. Operational safety and systems reliance motivate new boundaries for self-regulatory balance. For corporate officials, the key behavioral stimuli represent the reconstruction of the confidence zones where they operate. The improvement of the in-placed structures, that proved them feeble causing the public exposition, represents their highest priority in the reputational value restoring process.

Practical Implications and Limitations

This manuscript has several implications for executives currently professionally practicing in terms of overcoming reputational events. Executives could take profits from this manuscript by including in their strategic recovering plans the prompt enhancements to their governance structures. Adding systemic improvements would accelerate the recuperation of the firms' reputational value and assist with the emotional recovery.

Since the research design is an exploratory methodology based on an inductive comparative process based on grounded theory, a pattern of perceived traumatic experiences emerges because of the unwelcome exposure. In the psychological literature, "traumatic events" usually refers to events such as war, collective torture, or violence (Blanchard et al. 1996). Moreover, although this piece could also have implications in this psychological realm, the overall research objectives pursue the theoretical conceptualization in the managerial context solely.

This research content focuses only on the motivation behind a specific organizational response; it does not attempt to make any clinical analysis regarding individuals experiencing Post-Traumatic Stress Disorder (PTSD). Furthermore, the overall material should not be taken out of the research context that lays out how organizations respond to media scandals, and without the limitations of using qualitative data from actual testimony. It is strongly recommended to proceed with caution based on this important limitation.

Appendix 1: Interview Protocol

Interview Questions

Introduction (Interviewer): "*Hello (name____________). Thank you so much for taking the time to meet with me today. I really appreciate it. Before getting started, there are a couple of things I would like to cover.*"

Purpose and Format for the Interview (Interviewer): "*As part of an investigation, I am interested in developing a greater understanding reputational risk attributable to affiliated and non-affiliated entities to your organization. I will ask you a series of open-ended questions on this topic, and I will also ask one or more follow-up questions as you respond. The interview will last for approximately 60 minutes.*"

Confidentiality (Interviewer): "*Everything you share in this interview will be kept in strictest confidence, and your comments will be transcribed anonymously—omitting hour name, anyone else you refer to in this interview, as well as the name of your current organization and/or past organizations. Your interview responses will be included with all the other interviews I conduct.*"

Audiotaping (Interviewer): "*To help me capture your responses accurately and without being overly distracting by taking notes, I would like to record our conversation with your permission. Again, your responses will be kept confidential. If at any time, you are uncomfortable with this interview, please let me know and I will turn the recorder off.*"

"*Do you have any questions before we begin?*"

Part 1—Opening Ice-breaker and Background Questions

Opening Question: *Please tell me about yourself, both personally and professionally.*

Sample probing questions:

- *Can you tell me about your experience background?*
- *How long have you been part of in this organization?*
- *How did you obtain this position?*

Part 2—Core Questions—Experiences

Question 1: *Please tell me about the time that you have perceived a potential risk to your reputation triggered by an affiliated entity.*

Sample probing questions:

- *Tell me about how did you organization handle such event?*
- *What types of procedures does your organization have before and after?*
- *What was your overall experience?*
- *What change inside the organizations after?*
- *Tell me about who was the most affected?*
- *Did it lead to a change in management process, procedure, etc.?*

Question 2: *Please tell me about the time that you have perceived a potential risk to your reputation triggered by a non-affiliated entity?*

Sample probing questions:

- *Tell me about how did you organization handle such event?*
- *What types of procedures does your organization have before and after?*
- *What was your overall experience?*
- *What change inside the organizations after?*
- *Tell me about who was the most affected?*
- *Did it lead to a change in management process, procedure, etc.?*

Other sample probing questions:

- *How do you understand reputation risk?*
- *Do you have a common definition for reputation risk?*
- *Please give me some examples reputation.*

Part 3—Closing

Lastly, when you think about reputation risk and what it means to your work, are there any questions you were expecting me to ask that we have not covered, or do you have anything more to add?

Concluding Statement (Interviewer): *That concludes our interview. Thank you very much for all the time and sharing your insight. I really appreciate your time. If I need to clarify anything we've discussed, would it be okay for me to follow up with a brief phone call or email?*

Thank you again, (name________).

Appendix 2: Examples of the Sentiment Analysis (Polarities)

Positive polarity	Confidence
It benefits the executives because at least we can feel comfortable, like okay we can keep our jobs because we feel comfortable that the organization is not going to engage in something that will put us in a bad situation or jeopardize our livelihood	68
A reputation is in my mind something that comes into your head when you hear the name of our company. We want very much for you to have a positive association with the name of our firm when you hear it, and we are worried about any foreseeable outcome where our name is associated with something bad happening	48
So we tried to assist them as much as we could, and we are still trying to assist them in helping them to, depending on their development, depending also on their sector, depending also on the jurisdiction and what have you, to start to build up something which allows them at least to have a counter argument in the case they would be involved in the compliance issue with the regulator	75
Neutral polarity	
What we did not think through was that most sectors did not issue preferred stocks so it is limited primarily to financials and maybe some telecom and to the utilities business, so we held a lot of preferred stock paper in the financial space. We had inadvertently made a sector bet. The global financial crisis hit the financials the hardest and that wiped out the value of these stocks. Our loss there was an accident. We didn't plan to make the sector bet. That is just the way things turned up	50
We have already been deploying an FTDA training online as well. Privacy training, well, anti-bribery, FTDA, and insider trading training. We have a helpline, whereby people can anonymously communicate any compliance issue that they face in their business. We have just last year, and also in this year, deployed a privacy and information security program whereby we have ruled out certain polices, certain mechanisms, certain additional trainings to make sure that we are compliant in terms of privacy regulations, especially in Europe. In terms of information security, that people are aware, what can be done, what should be stored, what should not be stored, etc. So we have a lot of mechanism to prevent any wrongdoings aside from regular meetings with the senior guys whereby if there is an issue, or where there may be an issue that we can discuss it openly and where people from compliance are also attending this meeting.	48
We did get hurt. We invested in preferred stocks which were concentrated in financial institutions. We had sector risks, we had not diversified. Indirectly we have made a big sector bed of financials. In the fall of 2008 we marked down our portfolio by a billion dollars. As soon as we thought these securities were impaired we did a market to market impairment	48
Negative polarity	
Some of the considerations, I think, are is this the first time this has happened? Is it a reputation issue? What's the impact on the consumer; how are kids going to respond to this? Do we have all of the information? Is this a point-of-view issue, is it a human rights issue; what are we dealing with? Those are some of the lenses that I think we ran that through. First offender, second offender	84
So what example are you setting for them, the company, the kids, other athletes? Those are some of the things you have to respond to. It's not necessarily just about your relationship with that athlete. A lot of things you have to consider, because a lot of people are impacted by those scenarios	71
But you always have to think about when you're a global, multi-billion-dollar company, people are paying attention. The decisions you make impact folks beyond the company and beyond that athlete. Kids are watching, and you want our athletes to be models for kids, right? It's not just kids, it's other adults, anybody who is paying attention	40

Declarations

Conflict of interest The authors declare that they have no conflict of interest.

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