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King’s College London

Crises, CEO Accountability and Corporate Responsibility

Marc Lepere

A thesis submitted to King’s College London for the degree of Doctor of Philosophy, London, September 2022.

Declaration

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Abstract

In Room 2123 of Rayburn House, Washington the CEOs of BP, Volkswagen, Equifax and Facebook each testify to Congress. Three stops along the Capitol subway system to Room 2538 of the Dirksen Senate Office building and the CEO of Wells Fargo testifies to the Senate. All are accepting responsibility, under oath, for some of the biggest corporate scandals in history; and committing to take the necessary steps to ensure 'this can never happen again'. Scholars' expectations are that public accountability should incentivise companies to achieve high levels of corporate responsibility, but the empirical evidence is that it does not. In seeking to explain this paradox this thesis takes a positivist approach to mid-range theory development using mixed methods.

A novel analytic framework hypothesises CEO personal accountability (M) as the most explanatory variable mediating the effect of crises (X) on change, compliant change, and/or systemic change in corporate responsibility (Y). The framework details three mechanisms of public accountability: public shaming, financial penalties, and enforcement orders and their direct and indirect effects which can be manifest at three levels – low, medium and high. The deployment of the framework to examine (M) in combination with observed change (Y) facilitates the breadth and depth of analysis required to empirically examine four propositions.

Deep case studies examine: BP's Deepwater Horizon crisis (2010), VW's Emissions crisis (2015), Wells Fargo's Unauthorised accounts (2016), Equifax's Data breach (2017) and Facebook's role in the Cambridge Analytica scandal (2018). Content analysis of Congressional records; corporate communications; ESG disclosures; Securities and Exchange Commission filings and stock market data are analysed to examine the accountability of 14 CEOs. Data is analysed in a five-year framework: two years ex-ante to examine antecedent conditions, the period of the crisis in which the company and Congress signals its intentions, and two years ex-post to assess change in corporate responsibility and to monitor persistency.

The principal theory-based contribution of this study is the theory of 'Accountability Subversion'. The public demand that irresponsible actors are held to account by regulators for causing environmental and social harm. This demand conflicts with normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures.

Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. Such countermeasures are commissioned by CEOs and Boards of Directors (elected by shareholders) and developed by an ecosystem of professional service firms including accounting, legal, and public relations consultants. Accountability subversion constrains public accountability, decouples reputational harm from core business operations, and may inadvertently incentivise greenwashing.

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1. Introduction

In Room 2123 of Rayburn House, Washington, the Chief Executive Officers (CEOs) of BP, Volkswagen, Equifax, and Facebook each testify to Congress. Three stops along the Capitol subway system to Room 2538 of the Dirksen Senate Office building and the CEO of Wells Fargo testifies to the Senate, and nine days later, to the House Financial Services Committee. All are accepting responsibility, under oath, for some of the biggest corporate crises in the ten years 2010-2019; and committing to take the necessary steps to ensure 'this can never happen again'. Specifically, the CEOs are accepting responsibility for (in chronological order): BP's Deepwater Horizon (2010) crisis which killed 11 workers, injured 17 others and leaked an estimated four million barrels of oil from the Macondo well into the Gulf of Mexico[1]; Volkswagen's (VW) emissions crisis (2015) when the company was forced to admit to using software devices to defeat emissions standards of nitrogen oxides (NO_x) in diesel vehicles from 2009 to 2015[2]; Wells Fargo's (2016) mis-selling over a five-year period in which employees routinely opened bank and credit card accounts without customer authorisation[3]; Equifax's (2017) cybersecurity breach which affected the personal records of nearly half the U.S. population[4]; and Facebook's[5] (2018) improper transfer of 87 million users' data to Cambridge Analytica[6].

The Congressional Hearings are taking place against unprecedented warnings of environmental and social crises. The Intergovernmental Panel on Climate Change (IPCC) reports a "very high confidence" in multiple risks to natural, social, economic, and political ecosystems in the next 18 years caused by "human induced climate change". These risks are "becoming increasingly complex and more difficult to manage"[7] (*ibid*, 2022). The United Nations Development Programme (2013) warns of inequality as the principal socioeconomic challenge to development in both OECD and emerging economies; "high inequality undermines development by hindering economic progress, weakening democratic life and

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[1] (U.S. House of Representatives Committee on Natural Resources 112th Congress, First Session, 2011)
[2] (Committee on Energy and Commerce, House of Representatives 114th Congress, First Session, 2015)
[3] (Congressional Research Service, 2019)
[4] (U.S. House of Representatives Committee on Oversight and Government Reform 115th Congress, 2018)
[5] Facebook Inc. – which has renamed itself "Meta" to reflect its growing product range and its desire to distance itself from the Cambridge Analytica scandal (The Economist, 2021. A makeover at Facebook? pp.77-78). This thesis will continue to use Facebook.
[6] (House of Representatives, Committee on Energy and Commerce, 2018)
[7] Climate change impacts and risks are becoming increasingly complex and more difficult to manage. Multiple climate hazards will occur simultaneously, and multiple climatic and non-climatic risks will interact, resulting in compounding overall risk and risks cascading across sectors and regions (IPCC, 2022)

threatening social cohesion" (*ibid*, p.3). The 2019 report details how levels of inequality of wealth and income go beyond money to drive inequality of outcomes in other non-financial measures of wellbeing such as health, education, and opportunity. There is consensus that companies have a crucial role to play in exacerbating, and potentially alleviating, these twin crises (e.g., Serafeim, 2018; Stern, 2011).

The dramatic scenes in Washington introduce three themes that are central to this thesis. Firstly, they point to the need for irresponsible companies to be held to public account to reassert societal values, to remediate public harm, and to reduce the risk of recurrence in the interest of society-at-large (e.g., Durand, Hawn and Ioannou, 2019; Bundy, *et al.,* 2017; Schillemans, 2013; Malle, Guglielmo and Monroe, 2012). Consequently, this research brings the role of public accountability and regulatory pressure into the study of corporate responsibility. Specifically, the scenes highlight the concept of CEO personal accountability for a crisis as a potentially key mediating variable in the effect of crises on corporate responsibility. Secondly, Members of Congress are conflicted: they want companies to continue to generate wealth for the nation[8], employment and tax receipts. On the other hand, they increasingly want companies to be responsible (e.g., inclusive in their recruitment practices, and to reduce carbon emissions and water consumption) (e.g., Serafeim, 2021; Albareda and Waddock, 2016; Blowfield and Murray, 2011). As such, the opening scenes crystallise the current debate between balancing economic interests with the interests of society-at-large and the environment. This is characterised in the literature as a debate between shareholder capitalism (i.e., maximising value for shareholders) and stakeholder capitalism (i.e., acting in the interests of all other stakeholders and the environment). The debate is centred on whether shareholder capitalism as the institutional logic of the global financial system can be refined to drive (rather than constrain) the potential for corporate responsibility to meet the environmental and social crises the world faces (e.g., Ivey, 2022; Serafeim, 2021; de Bakker, *et al.*, 2020; Moon, and Parc, 2019).

Thirdly, the opening scenes demonstrate the limits of regulatory power and the complexities of exercising it (Thompson, 2020; Duff, 2009). Companies enjoy the same legal rights as a citizen and regulators are limited in how far and how deep they can reach into a company, which is private property (e.g., Mayer, 2018; Ireland, 2008). Companies enjoy legal

[8] Typically measured by Gross Domestic Product (GDP). GDP is the aggregate output of the many companies (public and private), governments and individuals in society that together constitute a country's economy.

privileges and protections through property rights, contract law and company law together with the law governing collateral, trust, and bankruptcy which regulators must be cognisant of (or work to change) (Pistor, 2021). The concept of corporate responsibility continuously falls in the gap between the competing expectations and demands of business (represented in Washington by the CEOs), society (represented by Members of Congress and the Senate) and government (U.S. Government agencies and regulators) (e.g., Behn, 2001; Strøm, 2000). The competing demands of these stakeholders render corporate responsibility to be a wicked problem, a super wicked problem, and an ultra-wicked problem (a term coined in this thesis to extend the notion of super wicked problems conceptualised by Levin, *et al.,* (2012)). Corporate responsibility is a wicked problem because it is highly complex and multivariate, in continuous motion, and with no correct answer that can meet the competing demands of stakeholders (Durand, Hawn and Ioannou, 2019; Rittel and Webber, 1973). It is a super wicked problem because it demands action in a limited timeframe; the same actors are responsible for the problems and their solutions; there is an absence of a central authority; and stakeholder groups continue to irrationally discount the future in their own interests (Levin, *et al.,* 2012). It is an ultra-wicked problem because the same technology is also simultaneously part of the problem of irresponsible company behaviour *and* one of the anticipated means of increased corporate responsibility. Additionally, complexity is compounded by the fact that a company's production system co-exists and is simultaneously at work with systems needed to enact change (Waddock, *et al.,* 2015). In an echo of the debate between shareholder and stakeholder capitalism, a firm's production systems can be considered as those factors that contribute to shareholder value and its change systems comprise the company's efforts to adopt more responsible behaviours towards its stakeholders (other than shareholders).

In sum, the opening scenes in Washington introduce public accountability and CEO personal accountability into the study of corporate responsibility, crystalise the debate between shareholder and stakeholder capitalism, and demonstrate the ultra-wickedness of corporate responsibility as a problem. Against this complex backdrop, this thesis does not set out to prove causation. Rather, it conducts an inductive examination of the asymmetrical relationships between crises, CEO personal accountability and corporate responsibility to speculate about causal complexity and nuanced calibration of effects (e.g., Eisenhardt, Graebner and Sonenshein, 2016; Charmaz and Bryant, 2016; Ragin, 2008). Aside from introducing these recurring themes, the opening scenes also tee-up theoretical expectations of what should happen because of Congressional Hearings.

1.1. The Paradox

State-of-the-art scholarship in corporate responsibility and crisis management expects the companies being held to public account in Washington to become more responsible as a result of proceedings. Corporate responsibility scholars have identified considerable benefits (losses) to companies perceived to be (ir)responsible because of crises: (dis)engaged employees (e.g., Buder and Kittinger-Rosanelli, 2021; Edmans, 2012; Fleming, 2009); increased (decreased) market position and share (e.g., Olson *et al.,* 2016; Du, Bhattachary and Sen, 2010); more (less) profit and higher (lower) market valuation (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019), and cheaper (more expensive) and easier (more restricted) access to capital (e.g., Dasgupta, 2022; Ioannou and Serafeim, 2014).

The events in Rayburn House and the Dirksen Building are broadcast live and reported in national and international media. By holding companies to account in such a public manner, regulators are drawing attention to the gap between society's expectations and the company's irresponsible behaviour (e.g., Rivoli and Waddock, 2011; McWilliams, Siegel and Wright, 2006). The expectation is that this gap will cause reputational and financial harm to the company which is expected to directly or indirectly result in (amongst other things) corporate fines (e.g., Garrett, 2014), lost sales revenues (e.g., Devinney, Auger and Eckhardt, 2010); reduced employee productivity (e.g., Edmans, 2012) and shareholder support (e.g., Kim, Kim and Qian, 2015; Aouadi and Marsat, 2016), which in combination are fundamental to a company's ongoing success (e.g., Armour, Mayer and Polo, 2017; Henisz, Dorobantu and Nartey, 2013). It is anticipated that such fundamental losses, and threats to its prosperity, will incentivise the company to undertake more responsible behaviour (e.g., Bhagwat *et al.,* 2020; Kuipers and 't Hart, 2014). Crisis management scholars know that CEOs play a pivotal role in crisis management and have the authority to frame and establish their companies' responses to crises (e.g., Graafland and Smid, 2019; Daudigeos, Roulet and Valiorgue, 2018; Coombs, 1995, 2007, 2004). Researchers' expectation of events in Washington is that CEOs (or successors) are pressurised into pursuing more responsible behaviour in future both personally, by having to explain their own part in the crises, and corporately, by publicly committing the companies they lead to reduce the risk of recurrence by becoming more responsible (e.g., Graafland and de Bakker, 2021).

Just as existing literature expects companies to become more responsible, forty of the one hundred largest US companies were found by regulators to have committed accounting, securities, and/or consumer fraud, discriminatory practices, undisclosed executive pay,

antitrust activities, patent infringement and other violations of the law between 2000 and 2005 (Clement, 2006). Aggregate corporate penalties in the US have risen from about $1 billion in 2001 to a peak of $10 billion in 2016 (Garrett, 2014). Recidivism (i.e., reoffending) principally by large companies increased from seven percent in 2010 to fifty percent in 2015 (Lund and Sarin, 2020). The paradox that motivates this thesis is: **it should be that public accountability incentivises companies to achieve high levels of corporate responsibility, but the empirical evidence is that it does not. Why?**

Empirical signals are themselves paradoxical, perhaps reflecting the ongoing debate between shareholder and stakeholder capitalism. Increasing investor pressure on CEOs and Boards is much heralded but conflicts with investor profits. BlackRock (the world's largest investment manager) illustrates the coercive and mimetic institutional pressure being applied (Ioannou and Serafeim, 2014; DiMaggio and Powell, 2012). The firm's Chief Executive Officer (again, CEO) and one of its founders, Larry Fink, writes a much publicised, annual letter to CEOs in which the firm invests. The 2019 version argues that "profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked"[9]. In the 2020 version, BlackRock said it would increasingly be disposed to vote against company management and Boards if companies do not disclose climate change risks (Sorkin, 2020). In January 2021, Mr Fink called on company CEOs to focus on ESG (Environmental, Social, Governance) risks, and for a single global system of ESG reporting (Fink, 2021). These calls coexist with the fiduciary duty of CEOs and Boards of Directors to maximise shareholder value (MSV). They also coincide with the global asset management industry earning $1.8 billion in fees last year from sustainability-labelled funds; up from almost $1.1 billion in 2020 according to Morningstar (an information provider) (Kishan, 2022). Mr Fink's 2022 letter announced Blackrock would be voting against shareholder resolutions arguing that many were 'extreme' (Fink, 2022).

CEO compensation is one of the principal ways in which shareholders incentivise executive decision-making to MSV (again, maximise shareholder value) but conflicts with underperformance (e.g., Ronnegard and Smith, 2018; Jensen and Meckling, 1976). In 2015 it became mandatory for companies whose shares are quoted on US stock markets to report on

[9] On August 2nd, 2019, one day after a widely publicised report by the Institute for Energy Economics and Financial Analysis claiming, "BlackRock's fossil fuel-heavy strategy has cost investors over $90 billion in value destruction over the last decade", the firm launched three new ESG funds called LEAF (Citywire Global, 2019). BlackRock has been criticised over the past two years for its fossil fuel-heavy investments which it claims are largely a function of its index funds.

the ratio of CEO pay to that of their average employee. In the 1950s and 1960s, CEOs averaged 7-9 times more compensation than their typical employees. By the 1980s CEOs averaged 42 times more compensation annually. In the 20 years since 2000, the average annual CEO pay gap is about 350:1 (Income Inequality in the United States, 2022). This imbalance is in spite of the fact that excessive CEO pay has been found to correlate negatively to firm stock price performance and that large pay gaps reduce profit – neither of which are in shareholders' interests (e.g., Rouen, 2019). In the first quarter of 2021, despite the economic contraction of the ongoing COVID-19 pandemic, shareholder votes in 94 percent of companies in the S&P 500 approved CEO and executive compensation schemes (The Economist, 2021).

To separate relationships and effects from the noise of these conflicting signals and to advance theory, this thesis asks, *'To what extent does holding CEOs to personally account for crises effect corporate responsibility?'* The research question brings crisis management theory to corporate responsibility scholarship. A crisis that results in significant public harm can be expected to amplify the reputational and financial harm suffered by a company. This amplification of context is akin to the most favourable laboratory conditions in which to examine theoretical expectations of improved responsibility in response to a crisis. Conversely, bringing corporate responsibility scholarship to bear on crisis management studies brings stakeholder theory to bear on crisis literature studies in a favourable manner. Crisis management is axiomatically company-centric, focusing on limiting reputational and financial harm to the company. Introducing the idea of improved corporate responsibility *per se* as a response to crisis offers a different stakeholder-centric view to the mainstream. Finally, the amplification of research conditions implied in the research question is ratcheted up by bringing public accountability research to both corporate responsibility scholarship and crisis management theory. A process of very public accountability (such as in the opening scenes in Washington) focuses on conditions in which personal and corporate motivations to become more responsible are amplified further. Specifically, the question theorises the concept of CEO personal accountability for a crisis as the most explanatory mediating variable to infer a relationship between crises, CEO personal accountability and corporate responsibility. Secondly, the research question demands an examination of the extent to which companies become more responsible as a response to crises. In essence, this study examines the extent to which corporate responsibility is a response to crises when it can reasonably be expected to be most likely.

1.2. Analytic Framework

An analytic framework is developed in line with two streams of institutional change theory from two traditions i.e. political economy (e.g., Conran and Thelen, 2018; Mahoney, Mohamedali and Nguyen, 2018; Capoccia, 2015; Hacker, Pierson and Thelen, 2015; Hacker, 2005; Streeck and Thelen, 2005) and management and organisation studies (e.g., Greenwood *et al*., 2012; Bromley and Powell, 2012; DiMaggio and Powell, 1983). The framework facilitates assessment of three possible changes to corporate responsibility in response to a crisis: no change, compliant change, and/or systemic change. Changes in responsibility are externally validated using Refinitiv Eikon[10] ESG metrics. The Refinitiv Eikon database holds ESG data on over 9,000 companies and is generally regarded as one of the world's best available material datasets which facilitates comparison across companies, industries, and countries. The analytic framework hypothesises CEO personal accountability (M) as the most explanatory variable mediating the effect of crises (X) on corporate responsibility (Y).

To conceptualise and operationalise CEO public accountability, a novel sub-framework is developed in line with public accountability research. There is a minimal consensus on the concept of public accountability: as a legitimate claim ex-post an event, by one party to demand explanations of what happened from another party perceived to have been responsible for the event, with the aim of penalising irresponsible behaviour (Schillemans, 2013). In this research, the public demand explanations for each crisis from CEOs of the companies perceived to have been responsible, with the aim of penalising irresponsible behaviour. Specifically, CEOs (the company's most senior executive) are personally held accountable by members of Congress and the Senate (the peoples' elected representatives). U.S. Government agencies and regulators (the executive arm of the legislature) penalise the irresponsible behaviour with the aim of reasserting societal norms, remediating public harm, (which includes harms suffered by individual stakeholder groups), and reducing the risk of recurrence. By providing a novel framework of the mechanisms of public accountability and how they work to effect change, this study deepens understanding of the conditions and contexts of public accountability and extends theory to be less about blame and deficits and more about design and how it works (e.g., Bovens and Schillemans, 2014; Olsen, 2014).

The novel framework deconstructs the concept of public accountability into mechanisms, each with associated direct and indirect effects. The first mechanism is public shaming which

[10] Previously Thomson Reuters Eikon which formally became part of London Stock Exchange Group in July 2019. The acquisition was completed in January 2021.

primarily examines how reputational harm plays out in twelve direct and indirect effects, and ultimately, on levels of corporate responsibility. The effects represent the personal, corporate and shareholder domains. In other words, the framework allows us to see the effects of any reputational damage because of each CEO being called to testify before Congress, and accepting personal responsibility, and responsibility for the actions of the company they lead, in causing public harm. The personal effects are allocation of responsibility, compensation, compensation recovery (i.e., the clawback of compensation from the CEO), employment status, legal accountability, and legal status. The corporate effects are sales revenue and operating profit, and the shareholder mechanisms are Board oversight (of the CEO), shareholder turnover, shareholder value and total shareholder return. The second mechanism is financial penalties which has two direct effects: corporate fines and corporate penalties and one indirect effect, settlements. The third mechanism is enforcement orders, which has a direct effect of ordered responses and an indirect effect of signalled intentions. Enforcement orders are typically enforced by the Courts in Consent Orders which specify the actions the company will take as ordered by the regulator and agreed to by the company.

To provide a flavour of how the mechanisms of public accountability reveal data for analysis, consider the effect of Facebook's announcement on Thursday 26 July 2018 of the loss of three million users in Europe and the introduction of strict European Union data protection legislation. The company attributed the loss of users to the abuse of 87 million profiles in the Cambridge Analytica crisis. On the same day as the announcement, Facebook's share price dropped 19 percent, reducing the company's value by $119 billion. At the time, it was the biggest ever one-day loss of market value in US stock market history. Facebook is an archetypal example of a high-growth company and the loss of three million users was enough to spook shareholders (the company still had 279 million users in Europe). In an ironic twist in the tale of CEO public accountability, Zuckerberg's (Facebook) position as the biggest single shareholder made him the single biggest loser; he personally lost over $16.5 billion on that day's trading (Neate, 2018). Within a year, Facebook's share price had rebounded, "closing at their highest price in nearly a year", on the news that the Federal Trade Commission had approved a $5 billion fine (Swartz, 2019). Foreshadowing the analysis of corporate fines and settlements, the Facebook fine was "a record amount that would still be less than a quarter of Facebook's annual profit" (*Ibid*, 2019). The loss of users is reflected in the indirect effects of public accountability on sales revenue and operating profit; the drop in the share price is

reflected in shareholder value; and the fine is registered in the direct effects of corporate fines and corporate penalties.

In sum, the novel framework of public accountability is comprised of three mechanisms and 17 direct and indirect effects of public accountability. Each mechanism leads to a proposition which is examined empirically by analysing the direct and indirect effects of the mechanisms of public accountability. The manifestation of each effect is identified on a three-point scale – low, medium, and high.

1.3. Data and Methods

The study deploys mixed grounded theory (Glaser and Strauss, 1967), which merges grounded theory with mixed methods at specific moments i.e., ex-ante, during and ex-post corporate crises to examine the relationship between crises and corporate responsibility in a five-year timeframe (e.g., Charmaz, 2014). It was decided to select cases from 2010-2019. This was a period of relative prosperity for shareholders (based on stock market returns) and means that companies involved in a crisis most likely had the financial resources and access to capital required to become more responsible if they chose to. Secondly, this was the period when social media exploded, with an estimated 3.5 billion of the world's population online by 2020 (Ortiz-Ospina, 2019). Finally, in 2018, an estimated 250,000 unique English language articles focused on ESG issues concerning 8,000 companies, indicating that corporate responsibility had become mainstream (Serafeim, 2020). The years 2010-2019 represent a perfect cocktail of financial prosperity, growing awareness of corporate responsibility and a larger potential spotlight on any wrongdoing than ever before.

A case study (small-N approach) is judged to be better suited than a large-N approach to examine crises which are 'extreme cases' for four reasons (Eisenhardt, 1989). Firstly, the research question calls for an inductive analysis and positivist interpretation of data which favours a case study approach, compared to deductive testing of theory which typically favours large-N statistical analysis (Eisenhardt and Graebner, 2007). Secondly, the internal validity of a small number of cases to reduce the number of variables the study needs to control for is preferred to a large number of cases with inherently more external variables (Gerring, 2013). Thirdly, a case-based strategy allows for 'thick description' which is better suited (than a large-N strategy) to explain the nuanced calibration in the practice of corporate responsibility that the research question implies (Eisenhardt and Graebner, 2007). Lastly, a case study approach provides a richer and more diverse evidence base than a large-N study of corporate crises could

accommodate to develop concepts, categories, themes and (ultimately) theory (e.g., Eisenhardt, Graebner and Sonenshein, 2016; Charmaz and Bryant, 2016).

A novel (small-N) dataset of five most likely case studies is drawn from an existing dataset of 33 cases – 'The Biggest Corporate Scandals of the Past Decade' – complied by the executive editor[11] of 24/7 Wall St., (a financial news and opinion company).

Table 1.1. A novel dataset of five most likely cases

Company	Crisis (Congressional description)	Crisis timeline
BP	Deepwater Horizon Explosion & Oil Spill	20 Apr 2010 - 19 Sep 2010
VW	Emissions Cheating Allegations	03 Sep 2015 - 28 Jun 2016
Wells Fargo	Opening of Unauthorised Customer Accounts	08 Sep 2016 - 20 Apr 2018
Equifax	Data Breach	07 Sep 2017 - 25 Jun 2018
Facebook	Transparency and Use of Consumer Data	17 Mar 2018 - 25 Jul 2019

The five most likely cases (columns 1 and 2) control for several variables: the companies are all industry leading MNCs; every crisis is intentional (Coombs, 2007); the impact of each crisis is overwhelmingly in the US; all companies have been held to public account by Congress; the CEOs have accepted personal responsibility for the crisis and for 'putting it right' under oath; all crises occurred between 2010 and 2019 (column 3) a period of one of the longest running bull markets in stock market history and an explosion of public interest in ESG in mainstream media (Serafeim, 2020). Sectoral variation between BP and VW (classed as 'industrial' companies) and Wells Fargo, Equifax and Facebook (classed as 'services'), variation in the specific nature of each crisis and cultural differences based on location of company headquarters and stock exchange of primary listing are considered an acceptable trade-off between the ability to observe causal relationships and the variables inherent in case selection.

The diverse nature of the mechanisms and effects of public accountability identified in the analytic framework require mixed data. Mixed data reflects the "messiness" (Eisenhardt, Graebner and Sonenshein, 2016, p.1116) inherent in super-wicked problems and practical attempts to measure corporate responsibility. All the world's leading sustainability standard

[11] Thomas Frohlich's work has been cited or featured in many major online and print publications, including MSN, USA Today, The New York Times, The Guardian, Washington Post, Forbes, Time Magazine, Business Insider, Los Angeles Times, Boston Globe, and Chicago Tribune.

setting organisations (e.g., Global Reporting Initiative, B-Corp, Sustainability Accounting Standards Board), ESG database providers (e.g., Refinitiv, MSCI, Sustainalytics) and integrated reporting frameworks (e.g., International Integrated Reporting Council, World Economic Forum) combine quantitative (financial) and qualitative (non-financial) data. The research question calls for a similar combination of explanation and thick description of the effects of crises on corporate responsibility. Content analysis of Congressional records; corporate communications; ESG disclosures; Securities and Exchange Commission (SEC) filings and stock market data are analysed to examine the accountability of 14 CEOs. Data is analysed in a five-year framework: two years ex-ante to examine antecedent conditions, the period of the crisis in which the company and Congress signals its intentions to make the company more responsible, and two years ex-post to assess change in corporate responsibility and to monitor persistency.

Changes in compliant and systemic responsibility are assessed separately. Compliant responsibility is assessed by deploying unique subsets of Refinitiv Eikon ESG measures called Compliant Responsibility Indicators (CRIs). CRIs are aligned with responses ordered by regulators (e.g., from Court Orders) and a company's signalled intentions (e.g., from corporate communications). Systemic responsibility is assessed by deploying a novel panel of 27 Systemic Responsibility Indicators (SRIs) selected from Refinitiv Eikon ESG metrics. The CRIs and SRIs are benchmarked at 12-months ex-ante. Change in compliant and systemic responsibility is dynamically assessed via readings of improvement, maintenance, or deterioration for each measure from the previous year. In combination, analysis of the change in CRIs and the SRIs ex-ante to ex-post crisis provides an assessment of the effect of crises on corporate responsibility (X→Y). Textual and statistical analyses are mixed to support the propositions developed in Chapter 4. In the final analytic step, findings across cases are iteratively mixed to identify themes and ultimately theory which is discussed in Chapter 7.

1.4. Contributions

This thesis takes a positivist approach to mid-range theory development. Contributions to corporate responsibility theory, crisis management scholarship and public accountability research are derived from inductive reasoning of the empirical findings (e.g., Charmaz and Bryant, 2016; Gerring, 2013). Starting with corporate responsibility theory, the research makes three contributions. Firstly, an analysis of state-of-the-art corporate responsibility scholarship identifies six prevailing views of corporate responsibility (analysed in chapter 3). The six views

identified are: *ethical* (e.g., Mayer, 2018), *co-dependent* (e.g., Freeman, Phillips and Sisodia, 2018), *responsive* (e.g., Pirson and Parmar, 2017), *shareholder* (e.g., Ronnegard and Smith, 2018), *input* (e.g., Khan, Serafeim and Yoon, 2016), and *constrained* (e.g., Schneider, 2020). Analysis finds that individually, and in combination, each of these views is insufficient to explain why, despite theoretical expectations, public accountability and its effects do not empirically result in high levels of corporate responsibility in response to a crisis (i.e., they do not sufficiently explain the paradox that motivates this study). The principal theory-based contribution of this study is to fill this gap in the literature by offering the theory of Accountability Subversion as an explanation of why and how the paradox occurs. *The public demand that irresponsible actors are held to account by regulators for causing environmental and social harm. This demand conflicts with normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures. Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. Such countermeasures are commissioned by CEOs and Boards of Directors (elected by shareholders) and developed by an ecosystem of professional service firms including accounting, legal, and public relations consultants. Accountability subversion constrains public accountability, decouples reputational harm from core business operations, and may inadvertently incentivise greenwashing.*

Secondly, this study extends corporate responsibility theory into what Jackson and Brammer (2014) call, the ‘grey areas’ of corporate reputation by identifying 12 effects of public shaming that scholars would expect to cause reputational harm – especially to companies responsible for (at the time) some of the largest corporate crises in history. Scholars expect that irresponsible behaviour is more costly to companies than responsible behaviour is beneficial (e.g., Tao and Song, 2020; Janssen, Sen and Bhattacharya, 2015; Zavyalova, 2014; Bhattacharya and Sen, 2004). A corporate crisis thrusts a company’s irresponsible behaviour into the public spotlight and can reasonably be expected to amplify reputational harm (Daudigeos, Roulet and Valiorgue, 2018; Aouadi and Marsat, 2016; Coombs, 2007). A second theory-based contribution is developing analytic tools to explain how the effects of reputational harm, caused by publicly holding CEOs to personally account for a crisis, is not as powerful an incentive as mainstream scholarship – or policymakers – expect.

The third contribution of this thesis to corporate responsibility studies theorises that public accountability may be an inadvertent motivation for greenwashing of ESG disclosures (i.e., reporting of sustainable performance which exceeds reality). Specifically, this study extends research regarding instrumental ESG disclosures (e.g., Alessi and Battiston, 2022; Velte, 2019; Li, *et al.*, 2018). Empirically, and counter-intuitively, the mechanism of financial penalties drives a strong relationship with systemic responsibility (suggesting that it motivates companies to become more responsible) and a negligible relationship with compliant responsibility (despite the company's legal obligations to comply)[12]. In response to being held to public account for a crisis, CEOs may instrumentally use ESG disclosures to be seen to be improving systemic responsibility as society demands, while simultaneously meeting their fiduciary duty.

Crisis management scholarship has established a deep body of knowledge surrounding the communication of CSR as a crisis response strategy to manage stakeholder perceptions during a crisis (e.g., Moreno and Kang, 2020; Ham and Kim, 2020; Coombs, 2007), and to repair stakeholder relationships post-crisis (e.g., Gillespie and Dietz, 2009; Coombs and Holladay, 2002). Crises have also been studied as a source of improved knowledge to improve crisis preparation through monitoring and reporting procedures, and training for example (e.g., Bachmann, Gillespie and Priem, 2015; Kern, Laguecir and Leca, 2013; Haack, et al., 2012). However, researchers appear to stop short of studying if and how the performance of corporate responsibility improves following a crisis. In other words, there is a gap in the literature surrounding the possibility of improved corporate behaviour being a response to crisis *per se*. By analysing changes in ESG measures 12- and 24-months post-crisis to assess change in corporate responsibility this research makes headway in filling that gap.

The thesis is also motivated by empirically based gaps in public accountability research. Scholars of public accountability draw a distinction between unexpected and expected accountability (e.g., Schillemans, 2016). Unexpected accountability triggers a defensive reaction or 'apology avoidance' (Hargie, Stapleton and Tourish, 2010). Expected accountability, on the other hand, is more likely to lead to justification based on prepared answers (Lerner and Tetlock, 1999). The main empirically based contribution of this thesis is a novel framework to examine how unexpected public accountability works in the specific

[12] A negligible relationship between financial penalties and compliant responsibility is indicated by a negative correlation ($r = -0.052$). By comparison a strong relationship between financial penalties and systemic responsibility is indicated by the very strong positive correlation ($r = 0.804$).

circumstances of each crisis. This framework conceptualises mechanisms of public accountability (public shaming, financial penalties, and enforcement orders) and models the direct and indirect of each mechanism. The direct and indirect effects of the public shaming mechanism have been further delineated into relevant domains (personal, corporate and shareholder). The framework can be used by researchers to examine any causal relationship X → M → Y where public accountability is a mediating variable. The theory of accountability subversion also contributes by alerting researchers to the effect of countermeasures which may introduce negative confounding bias.

1.5. The Story and Cast

The research begins with five CEOs being personally held to account before Congress (in chronological order): Tony Hayward; Richard Smith; John Stumpf; Martin Winterkorn; and Mark Zuckerberg. The companies they lead are BP (116 years old), Equifax (124 years), Wells Fargo (171 years), VW (85 years) and Facebook (19 years) respectively[13]. At the time of each crisis, each CEO has been in position for: Hayward (BP) 3 years; Winterkorn (VW) 8 years; Stumpf (Wells Fargo) 9 years; Smith (Equifax) 12 years; and Zuckerberg (Facebook) 14 years. All are Caucasian men. As each crisis breaks, four are aged between 53 and 74 years old, one is 34. Three are American (from different cultural backgrounds: Smith (Anglo American), Stumpf (German/Polish), Zuckerberg (Jewish); Hayward is British; and Winterkorn is German. There are two PhDs: Hayward (University of Edinburgh) and Winterkorn (Max Plank Institute); one holds an MBA, Stumpf (University of Minnesota); one a BSc, Smith (Purdue University); and one is a drop out, Zuckerberg (Harvard University). They come from a variety of disciplines: Engineering (Hayward, Winterkorn), Finance (Stumpf), Sales & Marketing (Smith) and Computer Science (Zuckerberg). Only one has been appointed from outside the company: Smith (Equifax). The other four have served their companies for many years prior to being appointed CEO: Winterkorn (14 years), Zuckerberg (16 years), Hayward (25 years) and Stumpf (34 years).

In total, the five cases yield data on the personal accountability of 14 CEOs. The cases are detailed in Figure 1.1. The Facebook, Wells Fargo and VW crises were exposed in the public media; BP and Equifax were disclosed by the company when events were in the public domain (row 1).

[13] As of June 2022

Figure 1.1. CEOs, tenure, and succession

In each case, the CEO (named in row 2) was in post at the start of the crisis (row 3), testified under oath to Congress (row 4), and took at least partial accountability:

> *"I am here today because I have a responsibility to the American people to do my best to explain what BP has done, is doing, and will do in the future to respond to this terrible accident" (Hayward, 2010).*

> *"On behalf of our company, and my colleagues in Germany, I would like to offer a sincere apology for Volkswagen's use of a software program that served to defeat the regular emissions testing regime" (Horn, 2015[14]).*

> *"I want to apologize for not doing more sooner to address the causes of this unacceptable activity. I accept full responsibility for all unethical sales practices in our retail banking business…" (Stumpf, 2016).*

> *"As CEO I was ultimately responsible for what happened on my watch. Equifax was entrusted with Americans' private data, and we let them down" (Smith, 2017).*

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[14] Martin Winterkorn VW was represented by Michael Horn, CEO & President, Volkswagen Group of America.

> *"We didn't take a broad enough view of our responsibility, and that was a big mistake. It was my mistake, and I'm sorry. I started Facebook, I run it, and I'm responsible for what happens here" (Zuckerberg, 2018).*

Each CEO also took personal responsibility for remediating the public harm and committed to becoming more responsible:

> *"I give my pledge, as the leader of BP, that we will not rest until we make this right. We are a strong company, and no resources will be spared. We and the entire industry will learn from this terrible event and emerge stronger, smarter, and safer" (Hayward, 2010).*

> *"We will fully cooperate with all responsible authorities. We will find remedies for our customers, and we will work to ensure that this will never happen again" (Horn, 2015).*

> *"…and I am fully committed to doing everything possible to fix this issue, strengthen our culture, and take the necessary actions to restore our customers' trust" (Stumpf, 2016).*

> *"It is extremely important that notwithstanding the constant threat of cybercriminals, the American people and the Members of this Subcommittee know that Equifax is doing everything in its power to prevent a breach like this from ever happening again" (Smith, 2017).*

> *"Over the past few weeks, we've been working to understand exactly what happened with Cambridge Analytica and taking steps to make sure this doesn't happen again" (Zuckerberg, 2018).*

The tenure of four of the five CEOs was terminated (row 5). The cases are arranged along a spectrum according to the nature of their termination (row 6), from remaining in post (left-hand side) to resignation (right-hand side).

Starting on the left-hand side, Zuckerberg (Facebook) **remains** in post, Stumpf having initially **resisted**, retired as CEO of Wells Fargo. At the mid-point, Hayward (BP) was **replaced**, Smith (Equifax) **retired** and Winterkorn (VW) **resigned**. Imagine the spectrum as a bipolar scale from −2 to +2. Zuckerberg remaining in post confounds theory and would receive a score of −2. Compare this to Winterkorn, who resigns in line with theoretical expectations and would receive the highest score of +2 (e.g., Daudigeos, Roulet and Valiorgue, 2018). The

nature of termination i.e., the CEO's position along this spectrum, is significant, and foretells each CEO's allocation of responsibility which is detailed in Chapter 6. The succeeding CEOs (row 7) are (from left to right) Sloan (Wells Fargo), Dudley (BP), Rego Barros (Equifax) and Müller (VW). Sloan also appeared before Congress and **retired**. Müller **retired** 31 months into the job. Rego Barros was an interim CEO. The next line of succession (row 8) sees Allen Parker appointed interim CEO (Wells Fargo), Looney (BP) as successor to Dudley where he is current, Begor (Equifax) where he is also current, as is Diess (VW) who succeeded Müller. Finally (row 9), Scharf was appointed CEO (Wells Fargo) in 2019 and is 26 months into the job. Nine CEOs have testified to Congress including three incumbents, one declined and three have met with regulators. Looney (BP), appointed 10 years after the Deepwater Horizon oil spill, is the only CEO who has not been involved with regulators as a direct result of the crises examined. The remainder of this chapter outlines the structure of the thesis.

1.6. Conclusion

This thesis investigates the paradox that public accountability should incentivise companies to achieve high levels of corporate responsibility, but the empirical evidence is that it does not. To understand why this research asks, *'To what extent does holding CEOs to personally account for crises effect corporate responsibility?'* The research question demands three things of this study. Firstly, it requires that insights from public accountability scholarship are brought to bear on corporate responsibility and crisis management scholarship to examine the extent to which companies become more responsible as a response to crises. Secondly, the question theorises the concept of CEO personal accountability for a crisis as the most explanatory mediating variable to infer a relationship between crises, CEO personal accountability and corporate responsibility. Thirdly, the question tests existing theoretical expectations from these three sets of literature at a time when personal and corporate motivations to become more responsible are expected to be amplified i.e., in conditions akin to the most favourable laboratory conditions. By doing so this thesis hopes to contribute to each set of literature. The thesis proceeds as follows.

Chapter 2 'Conceptualises Corporate Responsibility' to be corporate behaviour that reduces and compensates for the negative impacts of a company's activities (Crane, Matten and Spence, 2019), has a multiple stakeholder orientation (Freeman, 2010), and is increasingly focused on ESG matters (Serafeim, 2021). Two key questions are highly contested: 'to whom is the corporation responsible?' and 'for what?' In the debate between shareholder and stakeholder capitalism, what the corporation is responsible for continuously falls in the gap

between the competing expectations and demands of business, society and government (Durand, Hawn and Ioannou, 2019). In short, corporate responsibility is framed in this chapter as an ultra-wicked problem. The consensus conceptualisation of corporate responsibility ***expects*** public scrutiny of irresponsible CEOs to incentivise companies to greater responsibility to regain legitimacy following a crisis (e.g., Malle, Guglielmo and Monroe, 2012; Duff, 2009). The literature does not sufficiently explain how and to what extent crises ***effect*** corporate responsibility, nor does it sufficiently explain how holding CEOs to personally account for a crisis mediates the relationship between crises and corporate responsibility. These gaps motivate this thesis.

Having conceptualised corporate responsibility, the thesis turns to the 'Literature Review' (Chapter 3) of corporate responsibility scholarship and crisis management theory. The review of corporate responsibility analyses companies' motivations to become more responsible, the instrumental role of corporate communications (e.g., Schmeltz, 2017), and intentional and unintentional decoupling (e.g., Graafland and Smid, 2019). Analysis of corporate responsibility literature identifies six state-of-the-art views of corporate responsibility: ethical, co-dependent, responsive, input, shareholder and constrained. This analysis finds that each of these views is insufficient to explain why public accountability and its effects do not empirically result in high level of corporate responsibility in response to a crisis. The second part of this chapter turns to crises and how they are defined (e.g., Bundy, *et al.,* 2017; Mitroff, Pearson and Harrington, 1987) and typified (e.g., Grint, 2005). Analysis points to a gap focused on the possibility of improved corporate behaviour *per se* being a response to crisis. Finally, in section three the chapter considers scholarship into how companies, and particularly CEOs, manage crises (e.g., Coombs, 2020; Bundy *et al.*, 2017; Lins, Servaes and Tamayo, 2017; Coombs and Holladay, 2015). The literature stresses the critical role that CEOs play in a crisis but could be usefully extended to understand how and under what conditions their influence and decisions mediate the company's response.

The 'Analytic Framework' (Chapter 4) deployed in this thesis is a causal logic based on institutional change theory as outlined above. The theoretical focus is on CEO personal accountability (M) as the most mediating variable in the relationship between crises (X) and corporate responsibility (Y). To analyse the extent to which publicly holding CEOs to account personally for their role in a crisis effects corporate responsibility, a novel framework of how public accountability works is developed within the overall analytic framework. This consists of three mechanisms of public accountability: public shaming, financial penalties, and

enforcement orders which are expected to bring about compliant or systemic change in corporate behaviour. Each mechanism leads to a proposition which can be examined empirically. Chapter 5, 'Data and Methods', operationalises the analytic framework, again as summarised above. Five most likely cases control for several variables: all are industry leading MNCs; every crisis is intentional; the US is the epicentre of each crisis; all CEOs have testified to Congress and have accepted personal responsibility for the crisis and for 'putting it right'; all crises occurred between 2010 and 2019.

Chapter 6 details the results of the empirical examination of four propositions which are judged to be true or false. Overall, the findings reveal a medium degree of reported levels of both compliant (53 percent) and systemic responsibility (44 percent) as an outcome of crises; both significantly lower than the high expectations theory expects (75 percent or more). High theoretical expectations mean that, perhaps unusually, all four propositions are judged to be false. There is extensive variation in the results for ten of the seventeen effects of public accountability, particularly in the results for public shaming as a mechanism. These findings are not consistent with the orthodox belief in the power of reputational harm as a compelling incentive to increase levels of corporate responsibility. There is evidence from the mechanisms of financial penalties and enforcement orders that companies comply to a greater extent with changes they legally commit to than systemic change.

The penultimate chapter, 'Discussion and Analysis: The Theory of Accountability Subversion' (Chapter 7), briefly summarises the empirical findings and sets out the three theory-based contributions of this research and its empirically based contribution. The final chapter, 'Conclusion' (Chapter 8), sets out the policy implications at a time when the need for corporate responsibility is increasing but public accountability is declining. The limitations and opportunities of this research are discussed with a focus on the quality of ESG data (Larcker, Pomorski, Tayan and Watts, 2022). Accountability subversion theory points to the need for society to prioritise people and planet before money. This view of capitalism does not mean that profit is 'bad' per se, rather it is a different view of profit in which lower profit in the short-term is traded-off against longer-term sustainable returns (Lepere and Eckhardt, 2020). The thesis concludes with four recommendations of how accountability subversion theory can help to reform and reinvigorate public accountability to the benefit of business, society, and government, before concluding.

This study uses the term 'corporate responsibility' and makes a distinction between this and CSR (corporate social responsibility). Occasionally it will also use CSR if necessary

and/or as used by other authors. This may appear to be a distinction without a difference. However, there is little debate that to further corporate objectives over the past 20 years, marketing activity by companies has appropriated the notion of CSR (e.g., Fleming and Jones, 2013; Delmas and Burbano, 2011; Lewis and Potter, 2011; Visser, 2011; Vogel, 2006). As with most core functions in a company, marketers are generally trained in the business model that is current at the time. In the predominant model, marketing is designed fundamentally to manage the company reputation and to grow sales of its products and services. As the 'green' agenda has become ubiquitous around the world, the expectations of customers, employees, partners, and regulators – the traditional marketing audiences – have become more focused on the impact that companies have on the environment and society (e.g., Weber *et al.,* 2021; Durand, Hawn and Ioannou, 2019; Bhattacharya and Sen, 2004). Marketing has generally responded to these expectations by highlighting the 'responsible' aspects of a product or service over others to signal its ethical credentials without any real substantive change in the firm's environmental or social impact – such activity is known as 'greenwashing' (e.g., Ramaswamy, 2020; Gatti, Seele and Rademacher, 2019; Du, Bhattachary and Sen, 2010; Gillespie, 2008). This thesis uses the term 'corporate responsibility' to mean the extent of responsibility a company systemically exhibits in its business model, strategies, operations, and impacts on the natural, social, and economic systems in which it operates.

2. Conceptualising Corporate Responsibility

Corporate responsibility has many analogues. In an approximate and overlapping chronological order (Moon, 2014) companies have been expected to be responsible for: people, planet and profit, the so called 'Triple Bottom Line' (Elkington, 1997); the domains of community, workplace, marketplace and environment (BITC, 2020); for a more equitable sharing amongst all stakeholders of the value created by the corporation (Porter and Kramer, 2011); for more efficient resource use throughout the entire life cycle of the products and services produced, based on re-cycling and re-using materials in a 'circular economy' (Braungart and McDonagh, 2019); for a (re)-connection between corporate and social purpose in which corporations are given the legal and governance licence to operate only to the extent that their activities benefit society and the environment (Henderson and Van Steen, 2015; Mayer, 2013, 2018); for the provision of public goods and services as a response to market failure and failure in the public sector (Scherer and Palazzo, 2011) and finally, for the sustainable development of the planet, being one of only two enabling Sustainable Development Goals (SDGs) upon which the other sixteen goals depend (UN, 2015). This chapter sets out what is generally meant by corporate responsibility and defines the concept so that it can be operationalised to assess how it is affected by crises (section 1). The chapter discusses who the firm is responsible to and what the corporation is responsible for (section 2), before concluding by framing corporate responsibility as an ultra-wicked problem (section 3).

The backdrop to the concept of corporate responsibility is that it is contextually determined and is observed and defined in multiple ways. Corporate responsibility reflects the characteristics of individual companies, industries, nations and cultures (Matten and Moon, 2008). There is wide heterogeneity in the performance of corporate responsibility which is readily observable and extensively studied (Friede, Busch and Bassen, 2015). Corporate responsibility is not a steady state but is dynamic and overlapping (Crane, Matten and Spence, 2019). As a result, the concept has multiple definitions (see for example Knippenberg and de Jong, 2010; Matten and Moon, 2008; McWilliams, Siegel and Wright, 2006; Schwartz and Carroll, 2003). Despite this diverse backdrop, there appears to be consensus around five characteristics of corporate responsibility which have emerged in the past ten to fifteen years (e.g., Crane, Matten and Spence, 2019; van Merrewijk, 2012; Blowfield and Murray, 2011; Visser, 2011; Waddock, 2008; Ruggie, 2004; Schwartz and Carroll, 2003). These five characteristics are generally held to frame corporate responsibility.

i. Corporate responsibility is corporate behaviour that aims to reduce and compensate for the **negative impacts** (called 'externalities' by economists) on society and the environment that the firm produces as part of business-as-usual. These externalities (positive and negative effects) are not factored into the market price of goods and services (Crane, Matten and Spence, 2019). Likewise, the economic value of public goods, also known as 'commons', such as education, air or water quality are omitted from the price of a firm's products and services (Stern, 2011). Corporate responsibility is therefore a conscious decision by the firm to take account of these factors and omissions, to reduce the negative impacts of its activity and, where appropriate, to compensate society for them (Rivoli and Waddock, 2011).

ii. In line with Freeman's (2010) stakeholder theory, corporate responsibility has a **multiple stakeholder orientation** (Ruggie, 2004). Stakeholders are different groupings of people that include shareholders, employees, customers, partners & suppliers, regulators and society-at-large (Post, Preston and Sachs, 2002). Much of the corporate responsibility debate is focused on stakeholders other than shareholders (Blowfield and Murray, 2011; Porter and Kramer, 2011). The stakeholder concept has been adopted by business and is ubiquitous in the practice of corporate decision-making (Freeman, Phillips and Sisodia, 2018; Porter, 2004).

iii. Corporate responsibility is increasingly focused on **environmental, social and governance (ESG)**[15] dimensions. This rise in ESG is largely due to the dominance of institutional investors (Waddock, 2008) and multi-national institutions (Crane, Matten and Spence, 2019). Bloomberg (a financial news service) reckons that US$41 trillion (£31 trillion) of financial assets under management will carry the ESG label by the end of 2022. This is projected to rise to US$53 trillion by 2025, or one third of all the assets under management in the world (Diab and Martin Adams, 2021); an incredible statistic. A second driver of corporate responsibility's focus on ESG is the notable rise in the proliferation of regulations, codes of conduct, standards, best practices and principles

[15] ESG is a framework introduced in late 2004 by a UN Report entitled 'Who Dares Wins'. This report built on three strands of thinking that had been pursued in various ways over the previous 50 years. For example, the idea of formally assessing environmental impact started in New York in the early 1970s as part of the City's assessment of a real estate development. In Asia and Europe, different government initiatives have typically focused on one of the three aspects: environmental, social or governance (Straub and Klingler-Vidra, 2019). The UN Report brought the three strands – E,S, and G – together, and for the first time established the link between these issues and company value. It introduced two key ideas for investors to consider: firstly, that a 10-year-plus time horizon (not just annual or quarterly) is material in assessing company value; and secondly, that non-financial environmental, social and governance issues are also material. Since then, ESG investing has gathered momentum and in the past 5 years has rapidly become mainstream in the capital markets.

since the 1990's, promulgated by multi-stakeholder initiatives such as the UN Global Compact, European Union (EU), NGOs, Global Responsibility Index (GRI) and voluntary industry groups (Albareda and Waddock, 2016; Blowfield and Murray, 2011). As an indication of the growing bifurcation of CSR and ESG, Appendix I details online searches of the terms CSR and ESG over the period of this study from 01 January 2010 to 01 June 2022 using Google (an internet search engine). The popularity of searches for the term 'CSR' has increased by approximately 27 percent between January 2010 (index 55) [16] and June 2022 (index 70). By comparison, searches for the term 'ESG' have risen 500 percent from 2010 (index 14) to June 2022 (index 84). The effect of recent regulatory initiatives can be seen in the increased Google searches of the term 'ESG' since 2018, overtaking CSR in June 2021 (Appendix I).

iv. Corporate responsibility is a **discretionary** or voluntary activity undertaken by the firm in excess of and in addition to what is mandated by regulation (Matten and Moon, 2008).

v. Corporate responsibility is now generally held to **exclude philanthropy** such as donations, volunteerism and cooperation with NGOs and charities (e.g., Rivoli and Waddock, 2011; van Merrewijk, 2012). It is acknowledged that philanthropy has been included in the definition of CSR, famously as the tip of Carroll's economic, legal, ethical and discretionary pyramid (Carroll, 1979), eliminated as a separate element of corporate responsibility (Schwartz and Carroll, 2003) and more recently has been cited as a critical mechanism of corporate responsibility in developing countries (Visser, 2011).

A European Union Communication from 2002 anticipates a summary of the five characteristics of corporate responsibility typically held by theorists and practitioners 20 years later: "CSR is a concept whereby companies integrate social and environmental *(and governance)* [17] concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". These five themes broadly articulate the consensus around corporate responsibility and serve as the basis of this thesis' understanding of the concept.

2.1. A definition of corporate responsibility

In operationalising the above themes, this thesis adopts a definition of corporate responsibility that, "involves the company's business model and the impacts of the business

[16] The numbers are indexed to 100 and represent worldwide search interest relative to its highest point since 2004 when Google search data became available.
[17] Author's addition.

model, strategies and practices on stakeholders, nature and societies" (Waddock, 2008, p.30). The focus on this definition of corporate responsibility is systemically responsible behaviour in the way the company goes about its business activities. While corporate responsibility is nominally a discretionary activity, it is becoming normatively expected by society-at-large as part of *how* the company does business (Rivoli and Waddcok, 2011; Waddock and Bodwell, 2007; van Marrewijk, 2002). As such, corporate responsibility "flows through the organisation" and is typically viewed by stakeholders as part of the core business operations of production, marketing, finance, HR, procurement, logistics, legal and not a peripheral, discretionary activity (Ponte, 2019, p.212). In other words, substantive corporate responsibility is 'built in' not 'bolted on' (Grayson and Hodges, 2004).

The responsibility of MNCs is enacted in complex adaptive systems (CAS) which sit at the intersectionality of economic, social, environmental, and cultural systems (e.g., Lo, 2017; Walby, 2007; Diamond, 2005; Capra, 1997; Kauffman, 1995). In CAS, each system takes all other systems as its environment – there is no hierarchy or nesting within a single domain and systems do not necessarily constitute a single system. For example, the climate system is not nested within the economic system. Climate is a distinct and separate system which (in terms of climate change) correlates with economic activity but is not wholly saturated or effected by it. Similarly, the economic system is affected, but not wholly, by the climate system (Walby, 2007). CAS co-evolve, mutually adapting in a non-linear fashion to changes in other systems – sometimes harmoniously – at other times competitively (Kauffman, 1995).

MNCs whose shares are traded on public stock exchanges have a fiduciary responsibility to publish financial, operational, and regulatory information and are also the subjects of regular reporting in international, national and business media platforms (Karnani, 2011). Levels of corporate responsibility achieved by MNCs can have positive or negative impacts on stakeholders worldwide either directly or indirectly (Morsing and Spence, 2019; Dallas, Ponte and Sturgeon, 2019; Ruggie, 2004). It is acknowledged that MNCs are economic enterprises, operating in and across multiple national boundaries, often beyond the remit of any one nation and legal jurisdiction (Ruggie, 2018). Throughout this thesis the terms 'company' and 'firm' are used interchangeably; both referring to operating units of for-profit MNCs in the private sector. The unit of analysis in this thesis is the operations of MNCs that are traded on public stock markets. This thesis uses the term 'corporate responsibility'. The distinction is made between corporate responsibility which is focused on the ways in which a company conducts its business and CSR which is focused on the marketing of responsibility (e.g.,

Fleming and Jones, 2013; Vogel, 2006). Occasionally it will also use CSR if necessary and/or as used by other authors. Having defined corporate responsibility, this analysis turns to the question, 'what is the corporation (MNC) responsible for'?

Carroll's (1979) 'CSR Pyramid' sets out four types of responsibility for which firms are accountable, in a hierarchical pyramid structure. Critically, for our purposes this formulation is based on the idea of society's expectations of companies. At the base of the pyramid are economic expectations moving up through legal, ethical, and philanthropic expectations at the top. Working with Schwartz, Carroll (2003) later improved this formulation, removing the idea of hierarchy by using three interlocking circles to represent three overlapping domains of pure economic, pure ethical and pure legal. Philanthropy was eliminated as a distinct element by subsuming it into the overlap between the ethical/economic domains (*ibid,* 2003), and as noted earlier, is no longer generally considered to be part of corporate responsibility. The notion of expectations extends corporate responsibility beyond regulation and corporate governance into society (Herzig and Moon, 2012). Rivoli and Waddock (2011) introduced a dynamic quality to corporate responsibility through their work on understanding that as social norms and morés change, so do societal expectations of companies. Their analysis places corporate responsibility in "the gap" between current business best-practice and the changing expectations of society (*ibid*, 2011, p.114). Throughout this thesis this "gap" is conceptualised as the ongoing debate between shareholder and stakeholder capitalism, as discussed at the outset.

Building on the notion of a gap, corporate responsibility can be considered as a three-way-expectations gap extant at any given point in time between what business, government and society expect of each other and what they experience (Durand, Hawn and Ioannou, 2019; van Merrewijk, 2012). The expectations and experiences of the different actors are independently subject to constant change. For example, companies strive to achieve competitive advantage by anticipating or at least keeping up with changing market dynamics such as competitive product launches or new pricing initiatives and subtle shifts in customer preferences (Weber *et al.,* 2021; Du, Bhattachary and Sen, 2010). Regulators strive to stay abreast of changing advances in technology and widespread business practices (Kang and Moon, 2012) which themselves differ from industry to industry (Jackson and Apostolakou, 2009); and society's expectations change as normative morés change (Rivoli and Waddock, 2011). Changes in one actor's expectations may compete with the expectations of others e.g., government regulation seeking to create a level playing field may compete with company

strategy to increase market share (e.g., Barnett, 2018; Barney and Harrison, 2018; Crilly, Zollo and Hansen, 2012). It is axiomatic that changes in one actor's expectations have a mediating effect on the expectations of others (Crane *et al.*, 2018). There is therefore a continuous interplay which has the effect of suspending corporate responsibility in a dynamic and overlapping state (Crane, Matten and Spence, 2019). The concept of corporate responsibility is therefore both expectations and time dependent; it reflects the changing expectations of individual companies, industries, nations, and cultures.

2.2. Who is the firm responsible to?

Despite the urgent need for greater corporate responsibility driven by the crises of climate and inequality, scholars contest who the firm is responsible to. Van Marrewijk and Werre (2003) provide a framework of 'multiple levels' of corporate responsibility which takes a stakeholder, shareholder and societal approach to unpack and facilitate deeper investigation of the stakeholder concept. Stakeholders include the other two groups, shareholders, and society, which can be considered subsets of the broader stakeholder group. Shareholders and society are examined separately from stakeholders in the following analysis: shareholders lay claim to being the firm's most important stakeholder (Ronnegard and Smith, 2018) and society is discussed separately as it appears to be the locus of developments in current corporate responsibility research and practice (van Marrewijk, 2002). Barnett (2016) argues that the relationship between the interests of business and those of society-at-large, beyond a subset of powerful primary stakeholders, remains an 'open question' (p.1). He argues that the literature has focused on the capacity of stakeholders to influence management decision-making and resource allocation to the detriment of society who are perhaps secondary stakeholders and who lack the 'legitimacy, power and urgency' of primary stakeholders (Mitchell, Agle and Wood, 1997). As discussed in Chapter 1, the competing interests of stakeholders, shareholders and society-at-large informs one of the central debates this study sets out to advance.

Much of the theoretical discourse on corporate responsibility is focused on stakeholders other than shareholders (Ruggie, 2004). Stakeholder theory holds that stakeholders are groups of people who directly or indirectly have a stake in the firm via their role as shareholders, employees, customers, partners, regulators and society-at-large (Freeman, 2010). The relative influence of different stakeholder groups on company management is conditioned by the ownership of the firm (e.g., family, publicly quoted, state owned) and its governance structure (Aguilera et al., 2016). Nevertheless, stakeholding is an integral part of corporate decision-making and is ubiquitous (Rivoli and Waddock, 2011).

On 19 August 2019, the concept of stake holding received perhaps its largest and most public boost. The Business Roundtable (BRT), an association of the CEOs of America's largest companies, issued a 'Statement on the Purpose of a Corporation'. Together the CEOs represented companies with $13 trillion of market capitalisation, over one third of the US total equity markets. In an explicit move away from the maximisation of shareholder value the joint statement described, "Each of our stakeholders as essential" and committed 181 CEOs "to deliver value to all of them". The BRT statement was personally signed by the CEOs and was presented by them, and many media commentators, as a major tipping point in the evolution of capitalism. The CEOs were so keen to be personally involved that the statement was re-issued the following month with a further seven signatures included, bringing the total to 188 signatories (Business Roundtable, 2019). The following January, at the Davos meeting of the World Economic Forum (WEF), a manifesto that urged companies to move from the traditional model of "shareholder capitalism" to the model of "stakeholder capitalism" was widely adopted and again heralded by the media. This initiative was led by the Chairman of the WEF's International Business Council, Brian Moynihan, who is also Chairman and CEO, Bank of America, and a signatory of the BRT statement.

While all stakeholders may hold a stake in the firm not all stakes confer the same agency – there are limits and constraints to stakeholder influence on company decision making and resource allocation (e.g., Barnett, 2018; Crane 2018; Crane *et al.*, 2014). In his book, 'Limits to Stakeholder Influence', Barnett selects a collection of his papers published between 2000 and 2018 which explore why greater corporate responsibility is unlikely to become universal if it relies solely on justifying itself in narrow economic terms or what he refers to as, "making the business case". The capacity of stakeholders to reward firms for spending on more responsible behaviour is variable and therefore modifies their influence on subsequent resource allocation and behaviour[18]. Differing stakeholder perceptions of different industries' impact on the environment and society also (dis)incentivises individual company spending (saving) on corporate responsibility at an industry level and at a firm level[19] (Barnett, 2018).

In the context of corporate responsibility, the stakeholder concept is further complicated by many stakeholders simultaneously having multiple stakes in the same firm (Freeman, Phillips and Sisodia, 2018). Shareholders, for example, may include institutional

[18] Chapter 4. Barnett, M., 2018. Stakeholder Influence Capacity and the Variability of Financial returns to Corporate Social Responsibility. In: M. Barnett, ed., Limits to Stakeholder Influence. Cheltenham: Edward Elgar, pp.56-78.
[19] Chapters 5 to 9 inclusive.

and private investors as well as managers through equity-based bonus schemes (Quazi and O'Brien, 2000). Society-at-large may be customers and indirect partners through partnerships between the company and the public sector (e.g., Mazzucato, 2021; Scherer and Palazzo, 2011) such as those called for in SDG #17 (UN, 2015). There is confusion and conflict in the notions of payback and value of corporate responsibility which restrict the utility of the concept in practice i.e., which stakeholders should pay, and which should benefit (Villalonga, 2018)? Mittelbach-Hoermanseder, Hummel and Rammerstorfer (2019), in their study of the reporting of 600 European companies over nine years, note that "the value relevance of CSR disclosure (*ibid*, p.3)" depends on who is considering the value. For example, employees may also be shareholders through company pension schemes. Their demands as employees for better pay and benefits can be considered costs which is detrimental to their potential returns as a shareholders (Quazi and O'Brien, 2000). Alternatively, improved working conditions might lead to more productivity and long-term gain for them in their capacity as investors in the company pension scheme (Marrewijk and Were, 2002). In summary, the concept of corporate responsibility is focused on stakeholders (other than shareholders), but it is unclear how and when stakeholders can influence decision making and resource allocation, which stakeholders' benefit, which stakeholders should pay, and how competing stakeholder demands can be fulfilled.

Another strand of the literature argues that there should be no confusion as to which stakeholders should pay and which should benefit. Public companies have a fiduciary duty to be accountable to their shareholders (Ronnegard and Smith, 2018) and the social responsibility of a firm is to increase profits (Friedman, 1970). The shareholder approach to corporate responsibility is that shareholders (whether institutional, individuals, employees, or the state) are the firm's most important stakeholder and that they should use their influence on company management to pursue profit maximisation (Quazi and O'Brien, 2000). The argument is that socially responsible activities are the task of government not companies. Companies have a role to play and a contribution to make through paying taxes and/or philanthropy (Karnani, 2011). Friedman's famous aphorism that 'the business of business is business' is to some extent 'accepted', but it is contested by the very notion and ubiquity of corporate responsibility (e.g., Schwartz and Carroll, 2003; Rivoli and Waddock, 2011, van Merrewijk, 2012). In existing conceptualisations and applications of the theory of the firm, maximising shareholder value (MSV), or shareholder capitalism as it is also known, has come to be widely regarded as a model for "good governance" by investors, managers, lawyers, academics, and regulators

(Bower and Paine, 2017, p.51). MSV is focused on profit and the quarterly, bi-annual, or annual demands of financial markets (Karnani, 2011).

Dissenters argue that MSV has no legal basis (Stout, 2013). Stout (2013) argues that the notion of a shareholder is “a platonic ideal” with “no correspondent in the real world”. Rather there are many different types of shareholders, often with conflicting interests. Others argue that MSV requires the redirection of profits to shareholders away from other potential investments in research and design, skills development, higher wages, and technology upgrades for example (e.g., Mukunda, 2014; Chang, 2011). MSV forces corporate strategy to prioritise the need to generate short-term profit often via financial engineering, over the value created by production and trade, which typically requires investment in the mid-long term (e.g., Knafo and Dutta, 2016; van der Zwan, 2014). The result of this combination of short-term profit generation, lack of productive investment and management focus on delivering MSV has constrained company prosperity (Lazonick, 2014; Mukunda, 2014; Barton, 2011) and the potential for corporate responsibility (e.g., de Bakker *et al.*, 2020; Moon, and Parc, 2019). A consensus appears to be building around the “business case for sustainability” with the weight of recent studies suggesting that CSR activities might be positively related to firm value (e.g., Ioannou and Serafeim; 2019; Bernardi and Stark, 2018; Friede, Busch and Bassen, 2015). Others argue that there are so many company- and context-specific variables that there is unlikely ever to be a definitive causal link between corporate responsibility generally and financial measures, and that any such attempt to prove ‘the business case’ in this manner is destined to fail and could be counter-productive to achieving greater corporate responsibility (e.g., Fleming and Jones, 2013; Vogel, 2006).

MSV also sets up a nexus between executive remuneration and personal responsibility which goes to the heart of this study. MSV emerged in part to solve the principal-agent problem whereby shareholders as owners of a company, keen to maximise the returns on their investment, incentivise company’s managers (their agents) via performance pay schemes, typically in the form of equity-based bonuses. This turns managers of companies into shareholders, potentially compromising their ability to act in the interest of other legitimate stakeholders (Freeman, Phillips and Sisodia, 2018). The Economist (a magazine) reported that in 2020, the median pay of CEOs (again, Chief Executive Officers) managing companies in the S&P 500, a stock market index of 500 of the largest companies listed on public stock exchanges in the US, increased for the fifth year in a row. The article points out that these pay

increases occurred, "even though their firms lost money" as the US and the world economy was in the grip of the COVID-19 pandemic. The article claims that:

> *"…many Boards air-brushed away the impact of covid-19 on performance-based pay either by removing a quarter or two of bad numbers in order to meet bonus targets, changing the metrics mid-course, or…by issuing new share grants after the pandemic gutted the previous ones"* (The Economist, 2021).

In the first four months of 2021, despite the ongoing COVID-19 pandemic, US companies also announced $484 billion in share buybacks, the highest such total in at least two decades. Share buybacks reduce the number of outstanding shares in circulation thereby increasing the percentage of equity held by shareholders and concentrating the value of the shares held (Kasumov and Venkataramakrishnan, 2021). Shareholder support for executive pay remains strong with shareholder votes in 94% of companies in the S&P 500 approving CEO and executive compensations schemes (The Economist, 2021). The link between CEO remuneration and personal responsibility to shareholders is a particular manifestation of MSV which foreshadows the findings of this research and discussion of the mediating role of CEOs in determining corporate responsibility.

Another paradox central to this investigation is the competition between societal values and shareholder value (Carney, 2021), what this thesis characterises as the debate between shareholder and stakeholder capitalism. Societal values of what companies 'ought to do' can be in direct competition with the maximisation of shareholder value (Henderson, 2020). The societal approach holds that the firm exists within society and benefits from public goods such as education and transport infrastructure (van Marrewijk, 2002) and extends to ecological systems and the environment (Stern 2011). As part of society, a company is ultimately only allowed to operate by societal consent (e.g., Mayer, 2018; Melo and Garrido-Morgado, 2012; Matten and Crane, 2005) – known as 'the licence to operate' – and should serve societal interests, not just the interests of shareholders. One of the characteristics of the expected model of corporate responsibility is that the firm ought to take account of, reduce, and compensate for the negative impacts on society and the environment that it produces as part of business-as-usual (Schwartz and Carroll, 2003). The societal approach to corporate responsibility appears to be challenging companies to make strategic responses to changing institutional contexts (e.g., Durand, Hawn and Ioannou, 2019; Matten and Moon, 2008) and to new corporate challenges such as climate change and inequality for the benefit of society-at-large and not just shareholders (e.g., Waddock and Bodwell, 2007; McWilliams, Siegel and Wright, 2006).

Much of the current discourse centres on the institutional context i.e., the rules, regulations, standards, and normative expectations of corporate responsibility (e.g., Durand, Hawn and Ioannou, 2019; Mayer, 2018; Herzig and Moon, 2012). How sustainable or ethical is the dominant stock-market-based model? What are the alternative models of governance? The call is primarily twofold. Firstly, it is for an institutional and regulatory response to correct market shortcomings (Serafeim, 2021). Mandatory CSR/ESG reporting such as the new European Union regulations which came into effect in 2018 requiring public interest companies with over 500 employees to report on their non-financial, social, and environmental impacts (and those of their supply chains) is a good example[20] (Moeslinger, Fazio and Eulaerts, 2022). In 2021, the International Financial Reporting Standards (IFRS) organisation created the International Sustainability Standards Board (ISSB) to develop standards for non-financial reporting to sit alongside the International Accounting Standards Board (IASB). The IFRS aim is to make ISSB and IASB standards consistent with and comparable to each other by using an accounting method called Integrated Reporting (<IR>).

“The primary purpose of an integrated report is to explain to stakeholders how an organization creates value over time across six capitals” (IIRS, 2012). The <IR> framework categorises the types of capitals as financial, manufactured, intellectual, human, social and relationship, and natural. Integrated reporting requires a combination of financial and non-financial information and seeks to explain to stakeholders how a company’s business model utilises capital inputs and to show how its activities transform them into outputs (Eccles and Serafeim, 2014). At the time of writing, South Africa is the only country to mandate Integrated Reporting for all publicly listed firms for each financial year since 2011 and as such represents an important source of learning about <IR>. Examining the <IR> reports and ESG disclosures of 41 firms from eight sectors over four years in South Africa, Bernardi and Stark (2018), found a significant relationship between overall ESG disclosure scores and analyst forecasts, with the environmental component being particularly prominent. Once adopted internationally the ISSB standards and <IR> methodology will become central to any consideration of corporate responsibility.

[20] Under Directive 2014/95/EU, large companies must publish reports on the policies they implement in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards (in terms of age, gender, educational and professional background). The EU guideline in support of the Directive is based on the Integrating Reporting principles (European Commission, 2014).

The second strand in the discourse on the political economy of corporate responsibility focuses on reconnecting corporate and social purpose (Mayer, 2013). It has been argued that social purpose was originally inseparable from the right to incorporate – a linkage that has only been broken in the past fifty years (Ireland, 2008). Prior to that there was a de-facto connection between the rights and protections afforded to a company by being granted separate legal personhood and its role in providing a product, service or function that had a social purpose (Davoudi *et al.,* 2018; Hsieh *et al.,* 2018). Reconnecting corporate and social purpose is the overarching theme of much of the recent literature on the purpose of the corporation. Mayer (2013) in his book, 'Firm Commitment', focuses on governance in its widest sense. He argues that scholarship and policy has been too fixated on the issues of incentives, ownership, and control of corporations instead of a return to a focus on a firm's obligations, responsibilities, and commitments. The rise of supra-national governance often in the form of multi-stakeholder networks, standards, and practices such as the Global Reporting Initiative, ISO 26000[21] or SDG 17 which focuses on private-public partnership (UN, 2015), draws on and embeds this notion (Albareda and Waddock, 2016). Proponents of corporate purpose as a means of garnering greater corporate responsibility seek to (re)harness business in the service of society-at-large rather than principally for the benefit of a relatively small group of shareholders.

To sum up, the consensus in corporate responsibility research is that the corporation is responsible to its stakeholders, but the relative influence and agency of stakeholders, shareholders and society is contested. Proponents of the stakeholder view contend that the concept of corporate responsibility is focused on stakeholders, but it is not clear which stakeholders should benefit and which stakeholders should pay. Proponents of shareholder capitalism hold to the view that theirs' is the primary stake for which value must be maximised (Quazi and O'Brien, 2000). Proponents of the societal view of corporate responsibility look to a reframing of the institutions of corporate governance i.e., a strengthening of rules, regulations, standards, and normative expectations as a means of rescuing capitalism from its own excesses in the interests of society and stakeholders other than shareholders (Mayer and Roche, 2021; Stout 2013). The contest over who the firm is responsible to helps to explain why some company decision makers are not more restricted in their choice of what can be described as irresponsible corporate behaviour (de Bakker *et al.*, 2020).

[21] ISO is the International Organization for Standardization (ISO), an international standard-setting body which works in 165 countries to promote worldwide proprietary, industrial, and commercial standards. ISO 26000 provides guidance on ways to engage with stakeholders and integrate social responsibility into the organisation.

2.3. Corporate responsibility as an ultra-wicked problem

Corporate responsibility can be defined as both a ‘wicked problem’ and as a ‘super wicked problem’. In one contribution, this thesis extends existing theory and coins the term, ‘ultra-wicked problem’. To explore corporate responsibility as an ultra-wicked problem, it is first necessary to understand the nature of wicked and super wicked problems. Waddock *et al*., (2015) extends organisational change theory to include large systems change by proposing a conceptual framework to understand the integration of organisational change, large system change (such as the actions required by society, government, and business to mitigate the climate crisis) and wicked problems. The analysis sets out the properties of wicked problems. Each problem is unique and is conditioned by its interplay with others. This inter-connectedness with other problems has multiple implications for the nature of wicked problems (Rittel and Webber, 1973). Inter-connectedness means that there are no definitive boundaries to a wicked problem. Interaction of problems also adds a high degree of complexity into causal relationships which are non-linear and difficult to determine. The interaction of multiple problems, all conditioned by each other, means that wicked problems are highly dynamic – limiting the prediction of patterns – although fractal patterns may be discerned (but perhaps misleadingly). Finally, every change, large or small, brings about change in something else which is irreversible. Everything is constantly in play and ultimately there can be no right or wrong answer.

The COVID-19 pandemic illustrates the ‘wickedness’ of responsibility. Many countries in the world put their citizens into various forms of ‘lockdown’ which restricted social and economic activity of most of the population to protect a vulnerable but relatively small minority. In the public discourse, the social and economic costs were constantly being weighed against the public health benefits. Confronted with a lack of definition, complex and dynamic causal relationships, a lack of predictable outcomes for any given course of action and irreversible consequences of any action means that responsibility operates on the “edge of chaos” – in a space between order and disorder or complete randomness (Packard, 1988).

Levin *et al*., (2012) extend the notion of wicked problems to ‘super wicked’ problems which they propose have four key characteristics: an increasingly limited timeframe in which action can be taken; the same actors involved in causing the problem and finding a solution; the absence or relative powerlessness of a central authority to drive consensus and action; and irrational discounting i.e., when actors prioritise short-term interests over the behavioural changes needed to avert long-term threats. This analysis contributes by applying each

characteristic in turn to emphasise the super-wickedness of corporate responsibility as a problem. The first characteristic of companies having an increasingly limited timeframe in which to become more responsible and act to reduce their negative externalities (and to increase positive impacts) is highlighted by the warnings of worsening climate change, loss of ecosystems and species extinction (IIPC, 2022; 2018). Similarly, UNDP (2019) warnings (exacerbated by the COVID-19 pandemic) of growing social inequalities compound the super wickedness of corporate responsibility as a problem.

The second characteristic of a super-wicked problem is the involvement of the same actors in causing and solving the problem (Levin, *et al.*, 2012). As discussed earlier, the very notion of what constitutes corporate responsibility is contested by three principal actors: business, government, and society. These are the same actors who have caused the crises in the climate and inequality that corporate responsibility is in part meant to mitigate and even find solutions for (e.g., IPCC, 2022; Scherer and Palazzo, 2011). The third characteristic of super wicked problems is a relatively weak central authority to drive consensus and action (Levin, *et al.*, 2012). McWilliams, *et al.,* (2008) conclude that the discourse on CSR has become characterised by too many opposing discourses, resulting in vague and conflicting concepts and definitions. The lack of conceptual consensus around corporate responsibility has, in part, resulted in a significant rise in the tools available for measuring the social and environmental impact of business (Trasi.foundationcenter.org, 2017). Grieco (2015) estimated that already by 2015 there were more than 150 different methods in operation. Set against this lack of standardisation, the use of ESG measures allows for comparability across companies, industries, and countries. But ESG as a means of operationalising corporate responsibility, itself suffers from a lack of standardisation and competing authorities which is limiting its adoption and effectiveness (Tett, *et al.,* 2021). At the time of writing there is a confusion of standards, principles, frameworks, ratings, and scores (Larcker, *et al.,* 2022).

The EU regulatory framework discussed earlier, is the world's most advanced regulatory initiative in terms of its scope and ambition. The regulation introduces a taxonomy designed to define ESG measures with the aim of standardising disclosures for listed companies, investors, financial advisers, and financial products. This regulatory initiative competes with a voluntary initiative led by the WEF (again, World Economic Forum) aimed at self-regulation by business (Short and Toffel, 2008). The WEF framework was launched in September 2020 and is generally regarded as the most integrated and high-profile industry initiative to standardise ESG reporting. The framework is an output of the five leading voluntary standard

setting organisations[22] committing to work together towards a unified vision of ESG measurement (Hillyer, 2021). In another illustration of the lack of a central authority, Berg, Koelbel and Rigobon (2019) found a poor correlation amongst leading ESG ratings. In their study of six leading ratings providers (such as Refinitiv, Sustainalytics, MSCI) covering the disclosures of over 900 firms since 2014, they found the correlation of ESG scores and ratings between database providers varies from 30% to 71% (p.8). Such a lack of consistency makes it extremely problematic for investment analysts to come to an informed decision on whether to invest in a particular company based on ESG criteria (Larcker, *et al.,* 2022).

The fourth and final proposed characteristic of super wicked problems is the occurrence of irrational discounting of the future (Levin *et al*., 2012). This occurs when actors make short-term decisions usually for personal gain or gratification that ignore the compelling evidence of long-term harm, ultimately to their detriment. Elinor Ostrom (1990) was awarded the Nobel Prize in economics[23] for her work in demonstrating how society can be organised to avoid what (in economics) is termed “the tragedy of the commons”. The tragedy of the commons occurs when individuals neglect the wellbeing of common goods like air, water, and the environment in the pursuit of personal gain which leads to over-consumption and depletion or destruction of the same public goods. Despite repeated warnings and mounting evidence from climate scientists, businesses, governments, and societies have irrationally discounted their future for the past 50 years. Super wicked problems, like the crises in climate and inequality, require coordinated and simultaneous behavioural change by all actors which is not conducive to the short-term time horizons of shareholder capitalism or democratic politics. Proponents of stakeholder capitalism (in the debate with shareholder capitalism) argue that a reorientation of our institutions is required to affect the scale and synchronicity of the actions required. Such a full-scale reorientation has led to calls for ‘the reinvention of capitalism’ (e.g., Henderson, 2020; Collier, 2018; Mayer, 2018, Tirole, 2018).

In addition to applying the concept of super wicked problems to corporate responsibility this analysis extends Levin *et al.,* (2012) conceptually to the concept of ultra-wicked problems (and coins the term in this context). Not only are the same actors involved in the problem-solution; the same technology is also simultaneously part of the problem of irresponsible company behaviour and one of the anticipated means of finding solutions to

[22] Climate Disclosure Panel, Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB). In 2021, the IIRC and SASB announced a merger.
[23] Officially called the Sveriges Riksbank Prize in Economic Sciences.

challenges like diversity and inclusivity. Take artificial intelligence and machine learning systems (AI systems), for example. AI systems are a tool to help deal with the complexity of problems like diversity and inclusivity, but they are "so opaque that they can end up supporting processes that are diametrically opposed to any corporate ESG goals" (Tett, 2021). In one illustration of problem-solution conflict, AI systems are commonly deployed in companies to increase productivity; at the same time, they are expected to have a significant net negative effect on employment particularly for those in relatively adverse economic circumstances (in wealthy countries or in less developed countries) thereby reducing inclusivity and increasing inequality of income and opportunity (Dekker, Salomons and van der Waal, 2017). The problem-solution conflict inherent in AI systems is found in offering the public online services that enrich people's lives while switching public assets (in the form of personal data) to the private sector and then extracting the wealth (e.g., Zuboff, 2019); in adversely affecting democratic elections and deepening social divisions (e.g., Collier, 2018) and in causing a sense of national crisis but simultaneously being fundamental to potential solutions (e.g., Diamond, 2020). It has been estimated that by 2022, AI systems might be creating as much as $3.9 trillion of value to the world economy but are to a large extent a blind risk factor in the ESG equation (Tett, 2021).

Not only are the same actors and the same technology inherent in the problem-solution conflict, but complexity is also compounded by the fact that the production system of the global economy co-exists with systems needed to enact change (Waddock *et al.,* 2015). The world's production system in the current economic model is one of continuous growth as measured by Gross Domestic Product (GDP). GDP is the aggregate output of the many companies (public and private), governments and individuals in society that together constitute the world economy. For companies, particularly MNCs traded on public stock markets, profit and firm value are the ultimate measure of economic growth. A firm's production systems can therefore be considered as those factors that contribute to profit growth and firm value. Its change systems comprise the company's efforts to adopt more responsible behaviours such as more inclusive recruitment processes, to report on ESG matters or to transition to negative emissions. A firm's production and change systems co-exist and are simultaneously at work. The firm's production systems operate within the regulatory requirements and economic logic of the dominant financial system, wherein company earnings and profit are reported quarterly, bi-annually and/or annually. Simultaneously, its change systems are working to implement new working

practices or correcting legacy ones which are themselves part of the process of operational achievement and profit growth.

General resistance to greater corporate responsibility may be attributed to "wickedness by design" on the part of some companies (Nie, 2003) but generally is most likely not attributable to ignorance or even a lack of willingness. Rather, it is more likely due to powerful vested and self-perpetuating interests embedded in the sunk costs, store of trust capital and expectations that make business-as-usual a less expensive and disruptive option for stakeholders (especially shareholders, management, employees, and business partners) than different, more responsible behaviour (Henderson, 2020). Super wicked problems are therefore made 'ultra-wicked' by the co-existence not only of the same actors but also of the same technology and the same systems required to enact change and higher levels of corporate responsibility. These tensions and the ultra-wickedness of corporate responsibility generally, have led to the debate between shareholder and stakeholder capitalism, and to calls for a reimagining of capitalism by the academy (e.g., Henderson, 2020; Collier, 2018; Mayer, 2018, Tirole, 2018) and by practitioners (e.g., WEF, 2020; UN, 2015).

Mazzucato (2021) calls for a 'reimagining' based on a mission-orientated approach to the economy. She attempts to address weakness of "ongoing missions" by suggesting a redefinition of the partnership between the public and private sectors towards mutual risk-reward in the pursuit of public purpose. The aim is to identify a series of "moon shot" missions (like achieving net-zero emissions by 2030) and to reorganise public and private resources to achieve each mission. It is envisaged that value is co-created and shared in the process to a greater degree than is currently the case. It can be argued that such an approach can be piecemeal, resulting in a mission-by-mission approach rather than a fundamental reprioritisation of business-first, society-second which is the predominant ranking in the world's major economies (Bourdieu, 2005). Rittel and Webber (1973) suggest every problem can be considered a symptom of another problem. Following this proposition, a reimagining of capitalism that results in greater corporate responsibility could itself be characterised as a symptom of an ultra-wicked problem.

Tackling the challenge of the inter-connectedness of ultra-wicked problems head on, futures studies researchers like Gidley (2017) argue that the future is not pre-determined. Instead, multiple alternative futures can be imagined and created. Her typology of alternative futures offers a continuum from 'preferred' to 'possible' to 'prospective' to 'planetary' or what she also terms an 'integrated future'. An integrated future envisions the integration of multiple

approaches – a joining-of-the-dots approach – that is reflected in the growing body of multi-disciplinary research. To some extent the idea that the future can be created echoes a mission-orientated approach but broadens its application. It is an alluring notion and links to the concept of collaborative citizen-expert inquiry which advocates believe may overcome irrational discounting (Fischer, 1993). Such a reorientation of the future could hold the key to fostering the societal learning and coordinated behavioural change across business, society and governments that might lead to greater corporate responsibility and to the mitigation of environmental and societal challenges (Gidley, 2017).

To conclude, corporate responsibility is generally held to be framed by five characteristics: corporate behaviour that aims to reduce and compensate for the negative impacts of its activities, has a multiple stakeholder orientation, is increasingly focused on ESG, is discretionary, and excludes philanthropy in all its forms. In operationalising corporate responsibility, this thesis adopts a definition of corporate responsibility that focuses on systemically responsible behaviour in the way the company goes about all its business activities. What the corporation is responsible for is also a hotly contested question. The answer continuously falls in the gap between the competing expectations and demands of business, society, and government. Corporate responsibility is expectations and time dependent and therefore is a concept in continuous motion. There is no correct answer that can meet the competing demands of all stakeholders. As such, corporate responsibility can be framed as a wicked problem, a super wicked problem, and even more precisely as an ultra-wicked problem. It demands action in a limited timeframe, the same actors, the same technology, and the same systems co-exist and are responsible for the problem and the solution, there is an absence of a central institutional authority (e.g., lack of standardisation in ESG measurement) and competing stakeholder groups continue to irrationally discount the future in their own interest.

'To whom is the corporation responsible?', remains a highly contested question. The consensus is that companies are responsible to their stakeholders. However, the relative agency of different stakeholder groups is contested. It is unresolved which stakeholders can or should influence decision making and resource allocation, which stakeholders get what, and which stakeholders should pay (Villalonga, 2018). Advocates of shareholder capitalism in the world's major economies remain committed to the notion of MSV (again, the maximisation of shareholder value) as the model of good governance. Company directors of MNCs listed on public stock markets continue to have a fiduciary duty to maximise shareholder value – not stakeholder value. This duty sets up a relationship between executive remuneration and

personal responsibility which is central to the mediating role of CEOs in determining the level of corporate responsibility manifest in the company they lead. Advocates of stakeholder capitalism contend that companies should act primarily in the interests of society and stakeholders other than shareholders. Institutional changes (e.g., EU regulation, ISSB accounting standards) together with a renewed focus on corporate purpose are the principal mechanisms suggested to reframe business activity to prioritise societal value over shareholder value (Carney, 2021). As the reimagining of capitalism enters the conversation pessimists argue that the concept of corporate responsibility may be anathema to the very notion of capitalism (de Bakker *et al.*, 2020, Pistor, 2019). Optimists point to a new "consensus reality" in which investors, regulators and companies are no longer wondering 'if' they should become more responsible, they're now asking 'how' (Polman, 2018).

The conceptualisation of corporate responsibility frames the company as being responsive (to a greater or lesser extent) to the values and ethics of the society(ies) in which it operates (e.g., Pirson and Parmar, 2017; Rivoli and Waddock, 2011; Knippenberg and de Jong, 2010). This view of corporate responsibility generally ***expects*** public scrutiny of irresponsible CEOs to incentivise greater corporate responsibility to regain legitimacy following a crisis (e.g., Malle, Guglielmo and Monroe, 2012; Duff, 2009). As of yet, the literature does not sufficiently theorise how and to what extent crises ***empirically effect*** corporate responsibility. Nor does it sufficiently explain how holding CEOs to personally account for a crisis (as the opening scenes in Washington depict) mediates the relationship between crises and corporate responsibility. The possibility of filling these gaps motivates this thesis.

The next chapter (Chapter 3) hones in on why companies are motivated to become more responsible; examines corporate responsibility through the lens of crisis scholarship; and concludes by reviewing studies on the mediating role of CEOs in managing crises and determining the extent to which their companies become more responsible as a response to crisis.

3. Literature Review

This review of state-of-the-art corporate responsibility scholarship identifies six prevailing views of corporate responsibility: ethical, co-dependent, responsive, shareholder, input, and constrained. Analysis finds that each of these views is insufficient to explain the paradox that motivates this study i.e., why, despite theoretical **expectations**, public accountability and its effects do not **empirically** result in high levels of corporate responsibility in response to a crisis. Additionally, the analysis finds that crisis management studies place the company at the centre of analysis and seek to explain how the outcomes of successful crisis management mitigate, reduce and regain reputational and financial harm suffered by the company (e.g., Ham and Kim 2020; Coombs, 2020, 2007, 1995). This literature does not sufficiently explain why corporate responsibility *per se* is not theorised as a beneficial outcome of a crisis. Nor does crisis management literature provide sufficient explanation of the extent to which a CEO's personal accountability for a crisis mediates the company's response to it, even when forced to give testimony to Congress under oath. The gaps identified in corporate responsibility scholarship and crisis management theory and the need for new methods of analysis and new insights motivate this thesis.

The first section of this chapter reviews current scholarship on why companies are motivated to become more responsible starting from the broad perspective of their 'licence to operate' through to tangible, operational benefits of engaging employees; winning market share; becoming more profitable and valuable; and improving access to and costs of capital. These potential gains from responsible behaviour depend on stakeholder perceptions of company activities which are gleaned from corporate communications. Research into the gaps (known as decoupling) between policy and practices and between practices and outcomes is reviewed. The section concludes with a review of state-of-the-art literature on the instrumental role of corporate communications in building stakeholder perceptions and in creating intentional decoupling, known as 'greenwashing'. The second section of this chapter turns to crises and how they are defined and typified. Lastly, in section three, the chapter considers scholarship into how companies, and particularly CEOs, manage crises.

3.1. Why are companies motivated to become more responsible?

In conducting their business activities companies have an impact on the societies and environments in which they operate. Companies exist within society and benefit from public goods such as education (as a source of their employees for example) and transport

infrastructure (without which they could not move their goods around the world (e.g., Ponte, 2019). In common with society-at-large, companies also rely on the public commons of the environment such as air and water (Stern, 2011). If they are to survive and prosper, modern companies require the acceptance by the firm's stakeholders (who include society-at-large) of the company's impact. Such an acceptance gives the firm its licence to operate (Freeman, 2010). Stakeholder expectations of companies and their trust in them to behave responsibly are implicit in the licence to operate (e.g., Pirson and Parmar, 2017; Herzig and Moon, 2012).

Social norms and expectations are central to the licence to operate but (as discussed) they do not exist in a steady state; as social morés change so does society's expectations of companies (Rivoli and Waddock, 2011). At any given point in time expectations of corporately responsible behaviour can be considered a contest between what business, government and society expect of each other and what they experience (van Merrewijk, 2002). The actors' expectations and experiences are independently subject to constant change which has a mediating effect on the expectations of others (Crane et al, 2014). Such a view of corporate responsibility can be described as the co-dependent view. This study examines how companies respond to stakeholder expectations at a very particular point in time i.e., during and after a corporate crisis, when stakeholder agendas and issues are more 'urgent' and regulators and public opinion may threaten the company's licence to operate (e.g., Coombs, 2007; Mitchell, Agle and Wood, 1997). In doing so, it aims to bring a fresh perspective to an understanding of the relationship between crises and corporate responsibility.

In addition to societal expectations scholars also cite legal privileges and protections as an additional source of a company's licence to operate (Agle *et al.,* 2008). Under the law publicly traded companies (i.e., those that are listed on stock markets) enjoy three key privileges and protections: the status of personhood which enables the company to act and be treated separately from its owners (e.g., Thompson, 2020; Ireland, 2008); joint-stock ownership which allows investors to own a share of the company (Davoudi, McKenna and Olegario, 2018) and limited liability, which ensures that investors are only liable for the capital they invest in the company (New Economic Foundation, 2017). Legally independent companies, offering investors limited liability in return for a share of ownership which they can trade on the open stock market is the basis of the modern corporation (Hsieh *et al.,* 2018). Legal privileges and protections also extend to company assets such as capital (and debt), skills and intellectual property. Company assets have been 'coded' into a variety of laws to protect and enhance their "propensity to create wealth" for the company (Pistor, 2019, p.2). Companies enjoy significant

legal privileges and protections through property rights, contract law and company law, together with the law governing collateral, trust and bankruptcy. This is particularly important in the context of corporate responsibility where the law allows companies to avoid meeting the costs and liabilities of the negative impacts they have on society and the planet (Pistor, 2021). This is the ethical view of corporate responsibility. In short, this view argues that the modern corporation has an ethical duty to do the right thing on behalf of society in exchange for the legal protections and privileges it enjoys (from society) (e.g., Mayer and Roche, 2021; Pistor, 2021). In the event of a crisis which results in significant public harm, society requires that irresponsible companies be held to public account to reassert societal values, to remediate public harm, and to reduce the risk of recurrence in the interest of society-at-large (e.g., Schillemans, 2013; Malle, Guglielmo and Monroe, 2012). Such an exercise in public accountability (such as in the opening scenes in Washington) is expected to drive greater responsibility. Yet the paradox motivating this study is that it does not. This research aims to further understanding of the ways in which public accountability effects corporate responsibility.

Scholars have identified that there are tangible operational benefits which motivate firms to become more responsible: to recruit, retain and motivate employees (e.g., Fleming, 2009); to gain and enhance market position (e.g., Weber *et al.,* 2021; Bhattachary and Sen, 2010); to enhance profit and firm value (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019) and to protect and improve access to capital (e.g., Ioannou and Serafeim, 2014). Each potential operational benefit is examined in turn. Employees are a key stakeholder of the firm (Freeman, 2010; Post, Preston and Sachs, 2002) and the opportunity to reduce costs associated with employee recruitment, retention and motivation is a motivating factor for firms to behave more responsibly (e.g., Costas and Fleming, 2009; McWilliams, Siegel and Wright, 2006). Such motivations partly inform the co-dependent and responsive views of corporate responsibility in this analysis. Axiomatically, companies and their employees are co-dependent and the employer must respond, at least to some degree, to its employees' wishes and concerns. Research has successfully demonstrated that corporate responsibility is instrumental in recruiting, retaining and motivating employees (e.g., Du, Bhattacharya and Sen, 2010). Prospective employee perceptions of corporate purpose and responsibility can attract qualified candidates who are better suited to fit the organisation's stated values (van Marrewijk and Werre, 2003); in so doing recruitment costs can be lowered (El Akremi *et al.,* 2015). The potential clash between the values of prospective employees and company values is central to

hiring the next generation of talent (Meyerson, 2003). Numerous studies point to Generation Y (those born between the mid-1980s to mid-1990s) and Generation Z (those born between the mid-1990s to mid-2000s) being more socially and ecologically aware than previous generations (e.g., Buder and Kittinger-Rosanelli, 2021; Edelman, 2019; Zogby and Kuhl, 2013). As companies need to recruit from these generations, the firm's corporate responsibility credentials take on even greater importance (Buder and Kittinger-Rosanelli, 2021). The issue for these new employees is one of authenticity; how to remain true to one's personal values while working for a company who does not share them to the same extent (Fleming, 2009). The issue for publicly quoted companies is how to reconcile their primary motivation, and their CEO's fiduciary duty i.e. the pursuit of profit and maximisation of shareholder returns, with the values of younger generations of employees (Costas and Fleming, 2009). Employee recruitment is one of the many forums in which the debate between shareholder and stakeholder capitalism comes to life.

Researchers have also found that corporate responsibility contributes to higher levels of employee retention, potentially reducing employee turnover and acquisition costs (Gartenberg, Prat and Serafeim, 2016). The motivation for companies to control and reduce costs by retaining existing employees is especially acute in those labour markets where there is a 'war for talent' (Waddock, 2008). This war for talent reflects intense competition between employers to hire highly educated, highly skilled workers known as knowledge workers (Drucker, 1999). Knowledge workers are typically the managerial and professional class and are central to the design, operation and management of information and communication technologies upon which modern corporations depend. Knowledge workers are also critical to forming personal networks in and between the major cities, clusters of complementary expertise and assets, and business hubs in which firms operate (Ciravegna, 2014). MNCs (the focus of this research) are particularly dependent on these employees, which may be in short supply in the labour markets of host countries in both developed and developing economies.

Corporate responsibility is also a driver in motivating employees and can be a source of increased productivity and competitive advantage (Edmans, 2012). Contrary to classical economic theory, recent studies have found little empirical evidence to support the view that monetary reward is sufficient incentive for employees (e.g., Wietrak, Rousseau and Barends, 2021). Maximising the contribution of employees via organisational culture, job satisfaction and commitment is a key focus for company managers (Preuss, Haunschild and Matten, 2009). Issues of values, ethics, relationships, obligations, commitments, and trust are central to the

employer-employee relationship (Meyerson, 2003). Such qualities are as unique in firms as they are in people and, when combined with each other and with company structure, resources, and incentives, complicate an understanding of the relationship between corporate responsibility and culture (Hsieh et al, 2018; Kirby, Kirton and Crean, 2018). In the context of this study the effect of a corporate crisis – played out in the public arena – is likely to have a detrimental effect on employee recruitment, retention and motivation which is central to a company's prosperity (Meyerson, 2003). In contrast, scholars have found that improved responsibility post-crisis repairs relationships between staff and the organisation, to retain and remotivate staff and to appeal to prospective staff (e.g., Preuss, Haunschild and Matten, 2009). On being held publicly accountable for a crisis such a detrimental effect to the company should drive improved corporate behaviour and yet it does not appear to. Theory is relatively silent as to why.

Companies are motivated to behave more responsibly for marketing purposes (e.g., Olson *et al.,* 2016; Devinney, Auger and Eckardt, 2010). To respond to growing stakeholder expectations this analysis focuses on how companies deploy corporate responsibility to enhance product marketing, perceptions of the firm and stakeholder relationships upon which the firm is dependent. This motivation is foundational to what this analysis terms the responsive and co-dependent views of corporate responsibility. A corporate responsibility component in the marketing of a product or service which is undifferentiated functionally from its competitors, has been found to have a favourable effect on customer intention to purchase and on evaluation of the brand (e.g., Carrigan and Bosangit, 2016; Du, Bhattachary and Sen, 2010; Klein and Dawar, 2004). As such, the marketing of corporate responsibility has become a means of differentiation and of strengthening customer relationships (Korschun, 2021; Bhattacharya, Korschun and Sen, 2008) and is a powerful motivation for companies to promote their responsible behaviour and initiatives in product and service marketing (as opposed to corporate marketing which is focused on the company[24]) (Klein and Dawar, 2004). In line with marketing theory, corporate responsibility as a brand marketing tool has an impact on consumer awareness, attitudes and attributions (associated qualities and characteristics) of a brand (Weber *et al.,* 2021; Aaker, 1991). Researchers find that corporate responsibility in product-

[24] Corporate communications generally include company mission, vision and values statements, financial and operational reporting, sponsorship of social, environmental or cultural projects, philanthropic initiatives and corporate advertising (as opposed to product or service advertising) (Davies, 2003).

level marketing can improve customer satisfaction, customer loyalty and affinity (e.g., Olson, 2013; Du, Bhattachary and Sen, 2010).

Ethical consumption has entered the consciousnesses of mainstream, ordinary consumers and altered demand and shopping habits driven by environmental and ethical concerns such as CO_2 emissions, working conditions in developing countries, the ‘fair-trade’ movement, and organic food production (Korschun, 2021). The recent focus on single-use plastic demonstrates the pervasiveness of this phenomenon and the speed at which it can become ubiquitous (e.g., Olson, *et al.,* 2016; Dorey, 2018). Ethical consumption poses a significant challenge and opportunity for many companies and is particularly relevant for those firm’s whose customers are from Generation Y and Generation Z who, as discussed above, claim to be more socially and environmentally concerned than previous generations in their purchasing and consumption habits (Eckhardt *et al.,* 2019). This is contested by scholars who highlight that there is no evidence that Gen X and Gen Y attitudes translate into more socially conscious purchase behaviour than previous generations (Carrigan and Bosangit, 2016). Nevertheless, the weight of perceived, mainstream market demand is a significant motivation for companies to embrace corporate responsibility and many have responded accordingly (Korschun, 2021).

The marketing of corporate responsibility may have a ‘halo effect’ (Klein and Dawar, 2004, p.204) not only on consumer attributions of the product but also on the company behind the brand, if the brand is marketed under a name distinct from the company name (Bhattacharya and Sen, 2004; Aaker, 1991). This halo effect of corporate responsibility marketing on attitudes towards the company is positive if the activity is perceived to be legitimate and consistent in its actions. Perceptions of corporate legitimacy are based in part on the fit between the company’s principal business and the responsible behaviour it is promoting. In their book, Chandler and Werther (2014) describe what they call ‘strategic CSR’, which is corporately responsible actions a company takes “directly related to core operations” (*ibid,* 2014, p.65). Such a strategic fit helps to deflect accusations of corporate-level greenwashing i.e., where the company is deliberately promoting responsible practices that exceed the reality of their core operations (Delmas and Burbano, 2011). The concept of strategic fit can also offset stakeholders’ accusations against MNCs that they highlight responsibility in peripheral rather than core operations (Gatti, Seele and Rademacher, 2019).

Perceptions of the consistency of responsible performance are also critical to achieving positive evaluations of the firm. Hur, Kim and Woo (2013) studied the relationships

between corporate responsibility and corporate brand reputation. They found that perceptions of credibility play a mediating role in the relationship between firm behaviour and reputation. Corporate credibility can be a proof-point for stakeholders of consistently responsible performance which builds positive perceptions of the company over time. Consumers engage more deeply with corporate values and may self-identify with them. So, if gaps develop, known as decoupling (Morsing and Spence, 2019), between policy and practices (Hengst, *et al.,* 2016) and between practices and outcomes (Bromley and Powell, 2012) then the negative effect on perceptions of the company may be greater than the positive effect of CSR.

Finally, corporate responsibility is attractive to companies because it can help strengthen stakeholder relationships, especially those where there is mutual benefit such as initiatives in the local area or community (Dias, Rodrigues and Craig, 2016). Consumers use personal values as a benchmark against which they judge companies' CSR activity and a "triple fit" between corporate responsibility, company values and consumer values theoretically creates the strongest relationship between parties (Schmeltz, 2016, p.48). A crisis has the potential to induce negative stakeholder evaluations of the firm and damage reputation. Theory expects that companies will become more responsible in response to crises in part to repair reputation and to mitigate the risk of continued reputational loss. By bringing public accountability theory to bear on corporate responsibility scholarship this thesis aims to provide a new analytic lens through which researchers may begin to understand the ways in which holding irresponsible companies to account effects levels of corporate responsibility.

To conclude, corporate responsibility offers firms the potential to improve their market position via enhanced: intention to purchase, customer loyalty and affinity (Weber *et al.,* 2021), perceptions of the company (Klein and Dawar, 2004) and deeper stakeholder relationships (Bhattacharya, Korschun and Sen, 2008). These market-based motivations contribute to the responsive and co-dependent views of corporate responsibility. Of particular interest for this research is the asymmetric effect noted by Bhattacharya and Sen (2004) in which irresponsible corporate behaviour which detracts from customer experience (e.g., product, price, quality) is more likely to have a greater negative effect on consumers than 'doing good' is likely to have a positive effect (*ibid,* 2004). Scholars expect that irresponsible behaviour is more costly to companies than responsible behaviour is beneficial. A corporate crisis thrusts a company's irresponsible behaviour into the public spotlight and theoretically amplifies its detrimental effects. By examining the effects of crisis on corporate responsibility

through the lens of public accountability and its effects it is hoped additional and fresh insight can be gained into the asymmetric effect of CSR on stakeholder expectations.

Corporate responsibility scholars examining the relationship between corporate responsibility and financial performance i.e., 'the business case for sustainability,' generally consider firm performance in two ways: profit and value (e.g., Quentin and Campling, 2017; Boesso, Favotto and Michelon, 2014; Ioannou and Serafeim, 2014; Eccles and Serafeim, 2014). Researchers using accounting-based measures such as EBITDA[25], capital expenditure, and intangible assets such as 'goodwill' study the effects of corporate responsibility practices on profits (e.g., Boesso, Favotto and Michelon, 2014; Eccles and Serafeim, 2014). The study of value on the other hand, measures the stock market value of the firm by e.g., market value[26], return on capital and expectations of future performance as reflected in market value multiples (i.e., stock price to book valuation[27]) (Ioannou and Serafeim, 2019). This view regards corporate responsibility as an input to financial performance in what this study terms the input view.

Scholars make a distinction between 'material' and 'immaterial' sustainability practices (Khan, Serafeim and Yoon, 2016). By this distinction they mean the need for firms and the investment community to identify which measures are material to firm performance and which are immaterial. The Securities and Exchange Commission (SEC) define 'material' in line with a US Supreme Court interpretation as: something viewed by the reasonable investor without which the total mix of financial information would be different. A UN Report, 'Who Cares Wins' (2004) introduced a broader definition of materiality than commonly used — one that includes intangible, non-financial factors and longer time horizons (5-10 years and beyond) which it argued can affect company value. The report cited "generally accepted principles and ethical guidelines" relating to ESG (again, environment, social and governance factors) "can have a material impact on investment value (United Nations, 2004, p.2)". If investors can establish the materiality of relevant ESG measures, the potential for ESG investing is to link a company's future performance to its environmental, social and governance impact (e.g., Ioannou and Serafeim, 2019). The concept of materiality prioritises the interests of shareholders and informs the shareholder view of corporate responsibility. MSV is the

[25] Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) is widely used as a measure of companies' overall performance and operating profitability.
[26] Market value of a company = current market price (per share) multiplied by total number of outstanding shares.
[27] Book value of a company = total assets minus total liabilities.

predominant institutional logic of the global financial system which constrains the acceptance and practice of greater corporate responsibility (e.g., de Bakker *et al*, 2020). Such a view is identified in this analysis as the 'constrained' view of corporate responsibility.

Companies focusing on material sustainability issues are more likely to benefit from a positive relationship between corporate responsibility and financial performance, both in stock market and accounting terms (Khan, Serafeim and Yoon, 2016). Friede, Busch and Bassen (2015) conducted a comprehensive review of 2,200 peer-reviewed studies since the 1970's into the link between corporate responsibility (as measured by ESG) and financial performance. They concluded that there was a positive correlation (using various methods), "with the large majority of studies reporting positive findings," especially since the 1990's (*stet.,* p.210). The materiality of various ESG measures varies across firms and industries (Eccles and Serafeim 2014). Li, *et al.,* (2018) in their study of companies listed on the FTSE 350[28] find that higher CEO power i.e. influence over firm strategy and performance, enhances the ESG disclosure effect on firm value. Stakeholders associate ESG disclosure, from firms exhibiting higher CEO power, with greater commitment to ESG practice. Ascertaining *de facto* ESG practice is a challenge for scholars (Wang, Hsieh and Sarkis, 2017; Vanhamme and Grobben, 2008). Many business practices are regarded by companies as a source of competitive advantage and are legally protected in numerous ways (Pistor, 2019). The challenge becomes one of getting as close as possible to *de facto* CSR performance.

Wang, Hsieh and Sarkis (2017) studied the link between CSR performance and CSR report readability[29]. The authors combined two datasets and types of measure: Bloomberg ESG database for ESG aggregate scores and the KLD database for disaggregated measures to identify ESG performance. Their study indicated that companies intended to appear more responsible than they are in reality. Recent studies into greenwashing (see Gatti, Seele and Rademacher, 2019 for a comprehensive review) support this finding. Whether ESG disclosures accurately reflect performance of responsible behaviour, or are a mechanism of greenwashing, scholars expect companies to disclose higher levels of responsibility following a crisis and being held to public account. Again, these expectations cannot fully explain why expected levels of reported corporate responsibility are not manifest. To provide a new tool to narrow the gap between ESG reports as a *proxy* for performance and *de facto* performance; this study

[28] The FTSE 350 is an index composed of the 350 largest companies by Market Capitalisation listed on the London Stock Exchange.
[29] The study analysed 331 CSR reports issued between 2009 and 2012 by 168 US companies. They concluded that companies with more readable reports had higher ESG performance, indicating intentionality.

operationalises a unique panel of qualified, disaggregated ESG metrics to measure changes in reported responsibility because of a crisis (discussed in Chapter 5).

Recent research finds that firms who have better CSR performance than their peers enjoy relatively wider access to capital (Cheng, Ioannou and Serafeim, 2013). This informs a view of corporate responsibility as being both responsive to financial markets and simultaneously being constrained by the economic logic of shareholder capitalism. The firm is more likely to disclose superior CSR performance to the investment community to reduce perceived information asymmetries between management and shareholders (Ioannou and Serafeim, 2014). The reporting of corporate responsibility helps investors to mitigate perceived risk especially in the context of geographically dispersed GVCs (again, global value chains) in which social and environmental practices vary significantly from one country to the next (Ponte, 2019).

State-of-the-art scholarship suggests that investors are more willing to invest in firms with better performance on corporate responsibility than their peers– a powerful motivator for firms to improve their CSR performance and reporting (Friede, Busch and Bassen, 2015). Critics argue that not only is there no compelling link between CSR and financial performance (e.g., Halbritter and Dorfleitner, 2015; Laffer, 2004), but that attempting to find one is counter-productive to efforts to engender greater responsibility (Fleming and Jones, 2013). The argument is that there are too many variables between corporate responsibility and financial performance to meaningfully measure the effect on profit or value; variables which are further complicated by individual companies' characteristics, operational and governance contexts (e.g., Rajak, 2011; Matten and Moon, 2008).

Despite the ongoing debate between shareholder and stakeholder capitalism ESG investment is becoming normatively expected by investors; total assets under management are estimated to be $53 trillion by 2025 (Diab and Martin-Adams, 2021). Approximately 1,400 organisations in the investment community have signed the UN Principles for Responsible Investment since launch, thereby committing themselves to incorporate ESG issues into their investment analysis, portfolio positions and engagement with company managers (Amel-Zadeh and Serafeim, 2018). Reflecting the growing interest from investment professionals Refinitiv[30] introduced a new ESG database covering over 9,000 companies globally, including over 400

[30] Previously Thomson Reuters Eikon which became part of London Stock Exchange Group in 2019. The acquisition closed in 2020. https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/LSE/14171701.html

ESG metrics (Refinitiv, 2019). A comparable source of ESG assessment, Sustainalytics' ESG Risk Ratings, expanded to 11,000 companies in 2019. Such datasets typically aggregate individual ESG disclosures into weighted scores with the aim of increasing their utility for users. Recent evidence suggests that such aggregate ESG scores are not correlated with actual ESG performance but with the quantity of disclosures made by the firm (Drempetic, Klein, and Zwergel 2017). Building on this finding, this study operationalises a unique panel of qualified, disaggregated ESG measures to assess MNCs' performance of corporate responsibility (as discussed above). Despite being a proxy measure of performance, selected measures are aligned with recent regulatory initiatives in the EU and many countries worldwide which make ESG reporting mandatory for companies listed on public stock markets.

In summary, there is consensus on the factors that motivate firms to behave more responsibly: to establish and maintain the licence to operate; to recruit, motivate and manage employees; to gain and enhance market position; to enhance financial performance as measured by profits and firm valuation; and to protect and improve access to capital. These motivations for greater corporate responsibility inform six views of corporate responsibility and are summarised in Table 3.1. Scholars have also noted that a company can achieve these benefits as a result of being perceived by stakeholders to be responsible, which may or may not reflect the reality of their operations (e.g., Gatti, Seele and Rademacher, 2019; Hur, Kim and Woo, 2013; Delmas and Burbano, 2011; Waddock and Bodwell, 2004). Firms tend to use the communication of responsibility to achieve their perceived aims – the theoretical expectation being that there should be as small a gap as possible between the explicit promise in the communication and the reality of firm performance (Wickert, Scherer and Spence, 2016). The next section discusses scholarship on how companies communicate responsible behaviour and how a 'decoupling' between communications and performance may occur.

3.2. Corporate communication of responsibility

In communicating its corporate responsibility, the firm uses corporate communications vehicles[31] in a manner which maps to the notion of implicit and explicit communication of CSR (Matten and Moon, 2008). For example, company mission, vision, and values statements, ESG and CSR reports, and corporate responsibility advertising may be

[31] Corporate communications are generally considered to include company mission, vision and values statements, financial and operational reporting, sponsorship of social, environmental or cultural projects, philanthropic initiatives and corporate advertising (as opposed to product or service advertising) (Ipa.co.uk, 2020).

considered as explicit communication; sponsorship and philanthropic activity are more implicit (Schmeltz, 2017). Implicit and explicit CSR communication increasingly exist in both MNCs and small medium enterprises (SMEs) (Soundararajan *et al.,* 2017). In this section, theoretical expectations of explicit CSR communications are analysed together with explanations for intentional and unintentional decoupling between communications and firm performance. To achieve legitimacy progressive companies should integrate the mission, vision and values into the business model, strategy and working practices (i.e. into core operations); detail how progress towards these goals will be measured and assessed; report on progress (including problems and attempted solutions in ESG/CSR reports; and have these reports audited by an independent, external auditor (Waddock, 2008).

Scholars make two assumptions about CSR communication: firstly, explicit corporate responsibility communications, particularly in the form of reports and disclosures, will improve transparency and motivate firms to behave more responsibly (e.g., Amel-Zadeh and Serafeim, 2018; Kang and Moon, 2012). Secondly, audiences typically regard communications about corporate responsibility as aspirational rather than descriptive of a current reality i.e., the talk is intended to become action and so stimulates action (Christensen *et al.,* 2013; Haack *et al.,* 2012). A view of communication as a two-way interaction between communicator and audience can challenge both assumptions (Pope and Wæraas, 2015).

The communicator's intention and the audience's interpretation mediate any piece of communication (Hart, 2016; Crilly, Zollo and Hansen, 2012). Crilly, Hansen and Zollo (2016) take a cognitive linguistic perspective on CSR communications to examine the language used to ascertain how and what executives think about the challenge of becoming more responsible. The cognitive linguistic perspective seeks not to demonstrate that language encodes thought, "but rather how ideology may be enacted through discourse" (Hart, 2016, p.187). The Crilly, Hansen and Zollo (2016) study examines twelve companies, paired according to their CSR performance and classed as 'implementor' or 'de-coupler', representing six different industries. To reflect the two-way interaction of communications the dataset is fourfold: interviews with company managers, company CSR and ESG reports, interviews with the firms' stakeholders, and data from two ESG ratings agencies. Their proposal is that any deception on the part of the firm may not only be content based; but also, be apparent in the "linguistic properties, which derive from how managers cognitively construe the sustainability challenge" (Crilly, Hansen and Zollo, 2016, p.2). From the audience perspective, stakeholders have their own interests and agendas which mediate their interpretation of the communication as does their varying ability

to assess actual CSR performance and evaluate the validity of the claims being made. A decoupling between explicit CSR communications and the reality of firm performance may be either intentional or unintentional (e.g., Morsing and Spence, 2019; Wijen, 2014).

Intentional decoupling is known as greenwashing and is marketing designed to signal a firm's green credentials to the market (Laufer, 2003) without any real substantive change in their environmental or ethical performance (Gatti, Seele and Rademacher, 2019). Focusing on the environment, Delmas and Burbano (2011) define greenwashing, "as the intersection of two firm behaviours: poor environmental performance and positive communication about environmental performance" (*ibid,* 2011, p.65). Greenwashing is a deliberate act of misleading customers by selective use of information, exaggeration and/or omission. Companies can greenwash at a product-level, company-level, or industry-level (Gillespie, 2008). At the product-level, a company can say their packaging uses recycled materials for example, when in fact only ten percent of all the materials used are recycled. Scholars and commentators considered that in 2000 British Petroleum (BP) was engaged in a company-level greenwashing campaign. BP changed its logo to the Helios logo (still in use today) and introduced a new slogan, 'Beyond Petroleum', which it has since abandoned (Visser, 2011). The company spent an estimated $200 million on advertising and public relations to launch a new green identity (PR Watch, 2020). As a point of comparison in 2018, BP reported $26.1 billion in operating cash flow and expenditure of $200 million on research and development (R&D) to develop options for new, lower carbon businesses (BP, 2018). It is striking to note that the same $200 million budget, used 18 years prior for company-level greenwashing, is the same as the R&D budget into alternative energy to reduce CO_2 emissions, when "the time to act is rapidly closing" (IPCC, 2018). Greenwashing can also be enacted at the industry-level.

As discussed in Chapter 2, on 19 August 2019, the Business Roundtable (BRT), a multi-industry association of the CEOs of 188 of America's largest companies, issued and personally signed a 'Statement on the Purpose of a Corporation'. The CEOs explicitly presented a shift from shareholder capitalism to stakeholder capitalism as a major landmark in the evolution of business and capitalism itself (Business Roundtable, 2019). Such an announcement reveals big business' perceptions of the extent to which stakeholder capitalism has entered the mainstream. Raghunandan and Rajgopal (2020) studied whether this shift towards stakeholders and more responsible behaviour took place in BRT signatory firms relative to their non-signatory peers. The study found that signatory firms have higher levels of total CO_2 emissions; have more compliance violations relating to environmental and labour

matters which resulted in higher penalty payments, spend more on lobbying, receive more targeted government subsidies more often, and are more likely to vote against shareholder resolutions than their non-signatory peers. It may be that the CEOs who signed the statement intend to lead their companies to become more responsible in future and that it was simply too early to measure results (*ibid*, 2020).

Nevertheless, the BRT example gives rise to two questions fundamental to this study. Firstly, to what extent and under what conditions are CEOs accountable to their Board of Directors in a crisis (Joseph, Ocasio and McDonnell, 2014)? Scholarship suggests that the quality of the board (Withers, Corley and Hillman, 2012) and smaller boards with independent directors (Dowell, Shackell, and Stuart, 2011) may be able to help companies to reduce the impact of a crisis and harms caused. Chintrakarn, Jiraporn and Treepongkaruna (2021) examine 12,000 firm-level CSR scores from the KLD database[32] from 1996 to 2012. They find that managers are inclined to spend more on CSR in a crisis but that firms with more non-executive or independent directors significantly reduce CSR investments during the crisis[33]. This study seeks to complement such recent research by examining non-executive directors' accountability and oversight of CEOs before, during and after crises. The second question (raised by the BRT example) is, to what extent do CEOs' public statements signal intent to change their strategy and business model to become more responsible as a response to the crisis (e.g., Dasgupta, 2022; Graafland and Smid, 2019; Guiso, Sapienza, and Zingales, 2015)? In a public crisis the CEO, as the most public face of the company, becomes the target of public condemnation and blame. His/her alliances start to break down and support falls away, reducing his/her ability to counter criticism, hold their ground and sometimes even their position (Daudigeos, Roulet and Valiorgue, 2018). This research draws on such scholarship and is motivated to extend it by examining the extent to which CEOs public acceptance of personal accountability, made in person and under oath, mediates company behaviour that leads to higher levels of corporate responsibility.

MNCs are particularly prone to accusations of greenwashing in their marketing communications (Lewis and Potter, 2011). The global media exposes MNCs to the gaze of the world and can result in policy changes. For example, when the global media reported the Rana Plaza disaster in Bangladesh in 2013, when a garment factory collapsed with the loss of 1,100

[32] Kinder, Lydenberg, and Domini's database.
[33] The one exception is expenditure on employees, whose engagement is considered by non-executive directors to be key to coping with the crisis.

workers' lives, it led to policy change at firm and industry level (Donaghey and Reinecke, 2017). On the other hand, the same globalised, 'always on' media (Wu, 2017) presents companies with a platform to promote and amplify their corporate responsibility or an opportunity to amplify greenwashing (Ramaswamy, 2021; Gatti, Seele and Rademacher, 2019; Bhattacharya and Sen, 2010). Generalised stakeholders such as consumers and society-at-large are less able to distinguish between the language used in CSR communications than more specialist stakeholders (Crilly, Hansen and Zollo, 2016; Pope and Wæraas, 2015). Ironically, scholars have argued that greenwashing also has the potential to weaken consumer and capital markets for responsible products and firms. Greenwashing depends in large part on the information asymmetries between the firm and its customers; left unchecked, without greenwashing regulation, the practice has the potential to erode the market for responsible products and practices and the market for ESG and social impact investors. In the absence of credible support for external claims of corporate responsibility drawn from internal practices, the assumption made by stakeholders may be that the firm is guilty of 'greenwashing' (Delmas and Burbano, 2011). In effect, stakeholders deem all companies to be greenwashing to such an extent that they assume responsible companies are no better than their irresponsible peers.

Decoupling can also be unintentional and occurs between policy and practises (Hengst, *et al.,* 2016) and between practices and outcomes or means and ends (e.g., Bromley and Powell, 2012). Managers may be unsure what to do to implement a CSR policy or may feel that implementation is disadvantageous to other stated goals they are also responsible for(Bromley and Powell, 2012). In such circumstances their language may reflect their uncertainty and decoupling can result from "muddling through" (Crilly, Zollo and Hansen, 2012, p.1443). Organisational response is not always homogeneous, with different departments deciding on different courses of action depending on their specific agendas and the perceived threat to norms and practices (e.g., Hengst *et al.,* 2019). Such departmental deviation from policy is amplified in an MNC operating across many countries and languages where the translation of policy from headquarters to operating divisions can be interpreted very differently in diverse cultures (Gutierrez-Huerter O *et al.,* 2019).

Bromley and Powell (2012) suggest that if decoupling is created unintentionally over time i.e., it is the consequence of an accumulation of unintended small deviance(s) resulting in "the normalization of deviance", then it is likely only to be corrected when it comes to light, typically in the shape of a problem that needs addressing (*ibid*, p.34). By examining the extent to which, and in what circumstances, the firm becomes more responsible post-crisis this study

seeks to extend corporate responsibility scholarship. Weak diffusion and narrative throughout the organisation or a lack of training and resources can also drive unintentional decoupling (Haack *et al.,* 2012). Kern, Laguecir and Leca (2013) have suggested there may be a decoupling between policy which CEOs and senior managers implement in new practices, procedures and tools but where middle-managerial decisions ignore these changes and continue with business-as-usual. Lastly, locating responsibility for the improved CSR performance in the boardroom may be a determining factor in reducing unintentional decoupling (Graafland and Smid, 2019).

Researchers have examined the extent to which CEOs willingness to lead their company towards greater responsibility: is financially rewarded (Aguilera *et al.,* 2007); relieves the normative, coercive and mimetic pressures they are under (e.g., Ioannou and Serafeim, 2014; DiMaggio and Powell, 1983); helps to manage and align stakeholder expectations with the firm agenda (e.g., Freeman, Phillips and Sisodia, 2018; Rajak, 2011); mitigates the risk of an endogenous crisis which could cause reputational and financial harm (e.g., Hawn and Ioannou, 2016; Herzig and Moon, 2012); is driven by the CEOs personal values and ideology (Chin, Hambrick and Treviño, 2013). The possibility of extending scholarship into the instrumental role of leadership in improving corporate responsibility motivates this study (e.g., Quigley and Hambrick, 2014; Christensen, Morsing and Thyssen, 2013; Aguilera, *et al.,* 2007). This research examines the extent to which CEO personal accountability for a crisis mediates corporate responsibility 12 and 24-months post-crisis.

In summary, MNCs operate in a world defined as volatile, uncertain, complex and ambiguous[34] - abbreviated in the acronym VUCA (e.g., Polman, 2018; CIMA, 2012). As part of a reaction to the demands of an increasingly dynamic, globalised and VUCA marketplace, MNCs face multiple competing stakeholder expectations and regulatory regimes, which researchers expect to drive decoupling (Bromley and Powell, 2012). Such decoupling between CSR communications and the reality of firm performance may be either intentional or unintentional (e.g., Delmas and Burbano, 2011; Morsing and Spence, 2109; Wijen, 2014).

3.3. Summary of literature on corporate responsibility

Table 3.1. below analyses the literature on corporate responsibility: company motivations to become more responsible (column 1), benefits to the firm of corporate responsibility (column 2), the pressures for greater corporate responsibility (column 3),

[34] Originally defined at the end of the Cold War by the US military (Stiehm and Townsend, 2002)

pressures for lesser acceptance and practice of corporate responsibility (column 4) and the view of corporate responsibility as identified in this analysis (column 5).

Table 3.1. Summary of corporate responsibility literature

Company motivations	*Benefits to the firm of corporate responsibility*	*Pressures for greater corporate responsibility*	*Pressures for less corporate responsibility*	*View of corporate responsibility*
Establish and maintain the licence to operate	- Corporate legitimacy - Legal protections and privileges	- Societal expectations - National and supra-national regulatory regimes	- Multiplicity of regulatory regimes - Operations beyond national legal jurisdiction	Ethical; Co-dependent
To recruit, retain and motivate employees	- Better fit with employee values - Reduced costs - Disproportion-ate share of knowledge workers	- Employee and prospective employees' values and motivations	- Uncertainty of link between corporate culture and employee motivation	Co-dependent; Responsive
To gain and enhance market position	- Impact on consumer awareness, attitudes and attributions of products - Align with growing mainstream ethical market demand - Enhanced reputation - Stronger stakeholder relationships	- Mainstream demand - Gen Y and Gen Z purchasing behaviour and consumption habits - Asymmetric effect on consumers: being irresponsible is more negative than being responsible is positive	- Undetected decoupling can create positive perceptions of the company and incentivise firms to act irresponsibly - Greenwashing has the potential to weaken consumer and capital markets	Responsive; Co-dependent
To enhance firm performance	- Enhanced profitability and firm value - Competitive advantage - Strategic CSR drives returns on capital and market value multiples	- Firms with strong ratings on material ESG measures and topics more likely to outperform peers with poor ESG ratings	- Link to financial performance is contested - MSV weakens a firm's capacity for corporate responsibility	Input; Shareholder; Constrained
To protect and improve access to capital	- Cheaper and easier access to capital on better terms than peers	- Increased willingness to invest in firms with higher ESG scores	- Predominance of MSV as the institutional logic of the global financial system	Responsive; Constrained

There is consensus on the factors that typically motivate firms to behave more responsibly (column 1): to establish and maintain the licence to operate (e.g., McWilliams et al., 2018); to recruit, motivate and manage employees (e.g., Buder and Kittinger-Rosanelli, 2021; Fleming, 2009); to gain and enhance market position (e.g., Du, Bhattachary and Sen, 2010); to enhance financial performance as measured by profits and firm valuation (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019) and to protect and improve access to capital (e.g., Ioannou and Serafeim, 2014).

The benefits to the firm of corporate responsibility (column 2) include corporate legitimacy and the legal protection and privileges on which publicly quoted companies are founded (e.g., Hsieh *et al.,* 2018). In terms of employees, firms can benefit from corporate responsibility by hiring employees who are a better fit with the firm's values, through reduced costs associated with recruitment and retention of staff and in competing with their peers in the war for talent (e.g., Gartenberg, Prat and Serafeim, 2016; Waddock, 2008). Corporate responsibility is increasingly important in meeting mainstream consumer demand for more ethical products and services, in building corporate reputation and strengthening stakeholder relationships (e.g., Weber *et al.,* 2021). Performance is central to company prosperity and there is an emerging consensus that corporate responsibility is linked to enhanced profitability and firm value, competitive advantage and higher returns on capital and market value multiples than peer firms achieve (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019). Finally, firms with superior CSR performance are likely to have wider access to capital than their lower performing peers (Amel-Zadeh and Serafeim, 2018).

Column 3 summarises the pressures for greater corporate responsibility from the changing expectations of different stakeholder groups. As social expectations for greater corporate responsibility are rising regulators are introducing new regimes, with the EU currently being the most advanced region in scope and depth of regulation. Changing societal expectations also play out in employee and customer demands for companies to reflect their values in the workplace and in products and services, particularly for Generations Y and Z. There is some evidence that the cost of being irresponsible may outweigh the benefits of being seen to be responsible. A crisis has the potential to highlight (and may even be caused by) irresponsible practices which should engender greater responsibility as part of the company's response (Bhattacharya and Sen, 2004). Finally, the increasing inflows of investment into ESG funds provides empirical evidence of the finding that firms with strong ratings on material ESG measures and topics are more likely to outperform peers with poor ESG ratings (Ioannou and

Serafeim, 2019). By the end of 2022, US$41 trillion (£31 trillion) of financial assets under management will carry the ESG label (Diab and Martin Adams, 2021).

Scholars point to eight pressures (column 4) that lessen acceptance and practice of greater corporate responsibility. MNCs face a multiplicity of distinct cultures, social expectations and regulatory regimes often beyond any single legal jurisdiction which can retard greater responsibility (Ruggie, 2018). The complexity of establishing a link between corporate culture and employee motivation is a pressure to maintain business-as-usual (Kirby, Kirton and Crean, 2018). The potential for positive stakeholder perceptions can incentivise company policy aimed at greater responsibility. If any subsequent decoupling between policy and practice occurs but remains undetected by stakeholders, positive perceptions may persist. There is in effect a trade-off between the risk of publicly falling short of stated policy and suffering negative perceptions and the reward of positive perceptions gained by disclosure of the policy. The possibility of decoupling remaining undetected can motivate irresponsible behaviour (Hur, Kim and Woo, 2013). In the absence of effective greenwashing regulation, the practice of deliberately misleading stakeholders has the potential to undermine the market for ethical consumption and for ESG investing and maintain business-as-usual (Delmas and Burbano, 2011). Most significantly, scholars contest the link between corporate responsibility and financial performance (e.g., Halbritter and Dorfleitner, 2015; Laffer, 2004). The ubiquitous practice of MSV, which diverts profits from productive and potentially responsible investment, continually erodes the capacity of firms to behave more responsibly by building ESG concerns into their core operations (e.g., Lazonick, 2014). Finally, the continuing predominance of MSV as the institutional logic of the global financial system is at the core of resistance to acceptance and practice of greater corporate responsibility (e.g., de Bakker *et al.*; Schneider, 2020; Shin and You, 2019; Ioannou and Serafeim, 2014).

Analysis of this scholarship identifies six views of corporate responsibility (column 5): the ethical view in which proponents argue that companies have an ethical duty to society and the environment – a duty which the process of public accountability for a crisis should compel them to fulfil (e.g. Mayer, 2018; Herzig and Moon, 2012). A co-dependent view in which companies' mutual self-interest with society and the environment should compel them to high levels of responsibility following a crisis (e.g., Carney, 2021; Freeman, Phillips and Sisodia, 2018; Stern, 2011). A responsive view of corporate responsibility which would expect society's normative values (heightened in the twenty first century) around climate crises and social inequality to be a driver of high systemic responsibility especially after being held to

pubic account for a crisis (e.g., Weber *et al.,* 2021; Pirson and Parmar, 2017; Rivoli and Waddock, 2011; Knippenberg and de Jong, 2010; Mitchell, Agle and Wood, 1997). The fourth view of corporate responsibility is the shareholder view in which the company's primary responsibility is to maximise value for its shareholders (e.g., Ronnegard and Smith, 2018; Jensen and Meckling, 1976; Friedman, 1970). Unless responsibility contributes to MSV it is viewed as a cost which should result in low levels of responsibility following a crisis despite public accountability.

The fifth view of corporate responsibility is as an input to financial performance (e.g., Khan, Serafeim and Yoon, 2016; Quentin and Campling, 2017; Friede, Busch and Bassen, 2015). In this view a link between corporate responsibility and profit and/or value is expected to be fundamentally motivating to individuals, companies and shareholders, especially after being publicly held to account for a crisis. In the final view of corporate responsibility – the constrained view – it is framed as being "systemically constrained" by shareholder capitalism, potentially limiting the effects of public accountability at the firm level (de Bakker *et al*, 2020, p.1297; Schneider, 2020). The constrained view stops short of conceptualising corporate responsibility as endogenous to society and by extension to shareholder capitalism. Such endogeneity can lead to a spurious correlation which undermines any causal claims (Hill *et al.*, 2020). In sum, these five views of corporate responsibility are insufficient to explain the paradox that motivates this thesis. Only the shareholder view of corporate responsibility anticipates low levels of corporate responsibility – even in response to a crisis. New analytic tools are needed to understand why public accountability is not incentivising companies to achieve high levels of corporate responsibility.

3.4. The relationship between crises and corporate responsibility

The literature extensively explores the relationship between crises and corporate responsibility. There are two primary linkages: the link between CSR communications in and around crises, and the link between CSR communication and company reputation, which is the most studied variable as an outcome of crisis communication (Coombs and Holladay, 2015). Studies have focused on companies' use of CSR communications as a crisis response strategy to benefit from stakeholder perceptions of improved CSR (e.g., Coombs, 2020; Vanhamme and Grobben, 2009; Bhattacharya, Korschun and Sen, 2008). Coombs (1995, 2007, 2004) introduced Situational Crisis Communication Theory (SCCT) which defines a typology of crises based on the core insight that there is an inverse correlation between stakeholders' perceptions of responsibility for a crisis and organisational reputation. SCCT theory proposes

that the more responsibility stakeholders attribute to an organization for causing a crisis, the greater their negative perceptions of the organisation and the greater reputational damage it suffers consequently. The typology categorises crises in one of three classifications: *victim crises* (in which the company is characterised as the victim and is perceived to have weak responsibility for causing the crisis), *accidental crises* (where the company is considered to have moderate crisis responsibility), and *intentional crises* (where stakeholders strongly believe the company is responsible for the crisis and seek to apportion blame and remediate harm suffered).

More recently, Ham and Kim (2020) have built on Coombs (1995) to study consumer scepticism to CSR communications in several types of crises. They find that when consumers are suspicious of a company's CSR motives before a crisis, they remain unmoved by CSR communications that are a response to it. However, when consumers are only temporarily cautious about a company's CSR claims then CSR communications have a positive effect on purchase intentions when the crisis is accidental and not the fault of the company. Tao and Song, (2020) draw our attention to the difference between what they call 'corporate ability-related crises' such as industrial accidents, data breaches and product recalls and 'CSR-related crises' which result from irresponsible corporate behaviour such as sexual harassment, environmental damage, or fraud. Also, in an echo of Coombs (1995), the focus of their study is the effectiveness of crisis communications which is determined by the degree of alignment between the crisis response and consumers' pre-crisis associations of the company and the nature of the crisis. Finally, in their study of retail consumers and CSR communications, Moreno and Kang, (2020) propose the idea of CSR-company image-consumer values 'fit' in choice of message, tone-of-voice and authenticity of the information and content. The study implies high levels of corporate responsibility as a response to crises but does not explicitly state it and the possibility remains of authentic, but not complete, information which can be cherry-picked to the company's advantage. This study seeks to close that gap by examining publicly reported changes in corporate responsibility before, during and after a crisis.

Researchers have focused on CSR initiatives as a means of repairing stakeholder trust after a crisis (e.g., Gillespie and Dietz, 2009; Coombs and Holladay, 2002). In their study of European financial services companies Chalmers and van den Broek (2019) found increased CSR spending after the financial crisis to increase brand visibility, manage company image and repair trust. Following a major review of management literature Bachmann, Gillespie and Priem (2015) propose a conceptual framework of six repair mechanisms that organisations can

use to rebuild trust. Practical examples illustrate each mechanism which include investigations, public inquiries and explanations; apologies, punishments and compensation; organizational policies, controls and incentives; cultural reforms, induction and socialization, professional training, leadership and role modelling; corporate reporting, external audits and whistle-blower protection; and certifications, memberships and endorsements. There is no mention of changes in corporate behaviour and responsibility (*ibid*, p.1127).

Lastly, there is a body of research which examines the effect of CSR practices (as well as communications) on crises. Legitimacy theory suggests that companies gain moral legitimacy when their CSR activities reflect their intent to meet stated CSR goals (den Hond *et al.*, 2014). The expectation is a positive feedback loop in which responsible behaviour and disclosure drives legitimacy with stakeholders which in turn, fuels the maintenance or increase of responsible behaviour. Janssen, Sen and Bhattacharya (2015) theorise that CSR (performance and communication) raises stakeholder expectations of a company which in turn makes stakeholders more attentive to a crisis, more likely to attribute blame if the company is found to be irresponsible, and more demanding of the company's response. The paper concludes that CSR activities may be an asset of goodwill for companies in times of crises but can also amplify the potential harms caused.

Coombs and Holladay (2015) identify CSR as a crisis risk arguing that "CSR-based challenges are becoming rather common place in the corporate world" (p.158). They propose six options for CEOs and company decision makers to deploy when confronted with a CSR-based challenge: refusal; refutation; repression; recognition/reception; revision; and reform (p.153). Only 'revision' and 'reform' are expected to lead to a change in company behaviour resulting in increased responsibility. 'Revision' involves company decision makers denying that changes are a response to stakeholder demands[35] but nonetheless making minor changes in line with, but not corresponding directly to, those demands (*ibid,* 2015). 'Reform' is expected to result in changed corporate behaviours often working in collaboration and with the agreement of stakeholders.

Crisis management theory is focused on preparing for a crisis through improved knowledge, training, and monitoring processes and reporting procedures, managing during the crisis event and attempting to recover perceived losses in its aftermath (Bundy *et al*., 2017; Coombs, 2007). Bundy *et al*., (2017) use the term 'crisis management' to mean the decisions

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[35] Possibly to avoid legal liability, managers "do not recognize the changes were a result of the challenge" (Coombs and Holladay, 2015, p.154).

made and actions taken by managers, “in the immediate aftermath of a crisis” (p.1664). In reviewing literature from several fields including organisational theory, corporate communications theory and crisis management studies they propose a framework of three phases and two perspectives. The three phases reflect a temporal perspective: pre-crisis prevention, crisis management and post-crisis outcomes. The framework further integrates two perspectives: the internal perspective (i.e., how the firm prepares for, deals with, and learns from crises internally) and the external perspective (i.e., how the firm manages external stakeholders’ expectations). It is reasonable to expect research into corporate responsibility in crisis management literature to focus on the pre-crisis prevention phase, or as an outcome post-crisis. As discussed above, scholarship has not focused on corporate responsibility as an outcome of a crisis, despite increased motivations for more responsible corporate behaviour in the post-crisis phase.

Turning to the pre-crisis prevention phase identified in Bundy *et al.,* (2017), planning by virtue of its very existence is the first step in reducing the occurrence of crises (e.g., Weick and Sutcliffe, 2006). The notion of planning for crises or ‘preparedness’ involves companies having appropriate policies, practices and organisational structures in place. Researchers link preparedness to corporate reputation. The overriding principle is crises ‘will do no harm’ to the company (Mitroff and Alpaslan, 2003). In their experimental study amongst a sample of consumers, Klein and Dawar (2004) examine the possibility of corporate responsibility’s effects on consumers' attributions in what they term a product-harm crisis i.e., around a time of product failure. Their results show that consumer associations of a firm’s corporate responsibility “may be instrumental in reducing the risk of damage to brand evaluations in the event of a calamity” (ibid, p.215). The focus is on reputational harm rather than crisis preparation or the potential of crisis resilience and prevention. This review observes a gap in understanding the extent to which CEOs public acceptance of personal accountability for a crisis leads them to pursue high levels of corporate responsibility in the years that follow. This research is motivated to fill that gap by delineating and measuring specific changes in responsibility pre- and post-crisis.

In summary, this study is motivated to extend the asymmetric effect of CSR on stakeholder expectations (e.g., Tao and Song, 2020; Janssen, Sen and Bhattacharya, 2015; Zavyalova, 2014; Bhattacharya and Sen, 2004) by examining the relationship between crises and greater corporate responsibility. The research is also motivated to fill the gaps in understanding the extent to which leadership is instrumental in improving corporate

responsibility specifically in response to crisis; the extent to which CEOs public acceptance of personal accountability mediates the level of corporate responsibility; and the role of non-executive directors (NEDs) in overseeing the CEOs activities post-crisis. Overall, there appears to be insufficient research into the performance of corporate responsibility as an empirical response to crisis. Some studies imply CSR performance is a desired outcome of a crisis, but it is not explicitly stated (e.g., Bachmann, Gillespie and Priem, 2015; Bundy, *et al.,* 2017; Moreno and Kang, 2020; James and Wooten, 2006). In their comprehensive review of the literature on crisis management, Bundy *et al*., (2017) state: "we see little research that has considered an organisation's behavioural response in combination with its verbal response" (p.1673). This study aims to fill this gap in corporate responsibility scholarship by operationalising a unique panel of qualified, disaggregated ESG measures to provide data pre, during and post-crises to assess MNCs performance of corporate responsibility in response to a crisis.

3.5. What is a crisis [and how is it managed]?

A global pandemic, an industrial accident, rigged test results, a breach of data security, sexual harassment. Some crises originate in nature like SARS-CoV-2 [36], others are manufactured and are precipitated by technical, procedural, or human error; others still, such as a terrorist or security attack, are intentional (e.g., Gundel, 2005;; Rike, 2003; Perrow, 1984). A crisis can threaten a company's licence to operate and *in extremis* even its very existence (e.g., Bundy *et al.,* 2017; Coombs, 2007; Mitroff, Pearson and Harrington, 1996). "No company is immune (Coombs, 2007, p.ix)". Corporate crises are becoming more complex and their number and scale is increasing globally. Yet most companies' crisis management strategies are based on emergencies and scenarios they have experienced in the past. In practice, companies are "fighting new wars with old strategies" (Mitroff and Alpaslan, 2003, p.5). This section reviews the literature on crisis definition, crisis typologies, and how companies strive to manage crises.

"Crisis? What Crisis?" is the often-repeated phrase usually attributed to the British Prime Minister, Jim Callaghan, responding to journalists' questions on the "chaotic" state of public services in Britain in 1979. It was The Sun's (a newspaper) headline for an article which included his remarks. What Callaghan said was, "I don't think other people in the world would share the view [that] there is mounting chaos," (BBC News, 2000). This anecdote reflects the

[36] The consensus is that SARS-CoV-2 is a virus originating in nature, although this is contested by those who contend that is man-made (The Economist, 2020).

concept that crises, and their threats to stakeholders, are not necessarily “self-evident” (Grint, 2005). A crisis may be factual and self-evident i.e., an industrial accident; and/or a crisis may be perceptual i.e., based on expectations of corporate behaviour (e.g., Mitroff, Pearson and Harrington, 1996). The consensus is that there is no, single agreed upon definition of what constitutes a crisis. Nevertheless, as with corporate responsibility, this thesis proposes there is consensus around seven agreed characteristics of crises. Table 3.2. lists each characteristic (column 1), describes it (column 2) and lists scholarly examples (column 3).

Table 3.2. Characteristics of crises

Characteristic	*Description*	*Scholarly examples*
Socially constructed	Rather than objective and de-personalised; a crisis only becomes ‘a crisis’ when the actors involved define it as such.	Bundy, *et al.,* 2017; Coombs, 2010; Grint, 2005
Uncertain and disruptive	Are sources of uncertainty, disruption and change.	Bundy and Pfarrer, 2015; Coombs, 1995; Mitroff, Pearson and Harrington, 1987
Harmful to stakeholders’ interests	Can cause harm to the organisation and individual stakeholders	Kahn et al., 2013; Fediuk, Coombs, & Botero, 2012; James *et al.,* 2011; Gillespie and Dietz, 2009.
Relatively high public saliency	Events move from the private to the public domain. Responsible parties become the subject of public scrutiny and pressure.	Withers, Corley and Hillman, 2012; Coombs, 2007.
Reduced to simple explanations	Actors look for simple answers to questions such as: ‘what happened,’ ‘who is to blame’ and how ‘to put it right’?	Daudigeos, Roulet and Valiorgue, 2018; Bundy *et al,* 2017; Kuipers and 't Hart, 2014; Hood, 2002
Learning opportunity	Crises can provide an opportunity for organisational learning.	James, Wooten and Dushek, 2011; Veil, 2011; Lampel, Shamsie, & Shapira, 2009.
Part of larger process	Crises take place, in complex adaptive systems (again, CAS).	Blyth, Helgadóttir and Kring, 2018; Waddock, *et al.,* 2015; Roux-Dufort, 2007; Mitroff and Alpaslan, 2003.

In summary (column 1), crises are socially constructed, and responsible actors are subject to public scrutiny and pressure in which people look for simple answers. Crises take

place in CAS and are sources of uncertainty, disruption, and change which are harmful to stakeholders' interests. On the positive side they can also offer an opportunity for organisational learning which can become an important component in crisis preparation. The crises operationalised in this study will be selected to exhibit all the attributes generally agreed on by crisis management scholars. Each crisis will be deemed a crisis by Congress. Each will cause significant disruption to the public and to the company, and will be harmful to stakeholders' interests. Each will be highly salient with the public who will look for simple explanations of who is to blame and simple answers of how to put it right. Finally, crises will be selected because of the opportunities they offer to extend learning for researchers, practitioners and policymakers.

Based on the seven characteristics summarised in Table 3.2. this thesis adapts and adopts a definition of corporate crisis as, "a disaster that is precipitated by people, organisational structures, economics and/or technology that causes extensive damage to human life and natural and social environments *within a complex adaptive system*" (Mitroff, Pearson and Harrington, 1987, p.283; *author's italics*). The author has extended the original definition to include the fact that they take place in complex adaptive systems (again CAS).

The extension to Mitroff, Pearson and Harrington (1987) is the notion that crises occur in complex adaptive systems (again, CAS) and are parts of larger processes, rather than discrete events (Roux-Dufort, 2007). As discussed in Chapter 2 companies operate, and crises take place, in CAS (Waddock, et al., 2015). CAS are social systems that consist of multiple interactive, interdependent and interconnected sub-elements. They exist in a state of dynamic equilibrium, innovating and self-organising in a non-linear and irreversible fashion, becoming ever more complex (Blyth, Helgadóttir and Kring, 2018; Walby, 2007; Lo, 2015; Waddock, 2020). CAS operate at the "edge of chaos" (Kauffman, 1995). The implication of recognising that corporate crises occur in CAS for this research are twofold. Firstly, this study recognises that an ever-changing context may confound (rather than mediate) causal relationships. System effects may introduce a "lurking third variable" in causal logic which Pearl and Mackenzie (2019) depict as $X \leftarrow Z \rightarrow Y$. Or it may be that systemic effects demand that research is conducted in a much larger setting or context. Secondly, in line with the concept of ultra-wicked problems, the reasons for failures in CAS are themselves complex. The Federal Aviation Authority's investigation into the crash of the Columbia Space Shuttle concluded that, "complex systems almost always fail in complex ways" (National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (2011, p.viii). To better examine corporate

crises that are becoming more complex, more numerous and more unimaginable the next section reviews scholarship on the distinct types of crises.

Bundy *et al.,* (2017) conducted a major review of crisis and crisis management literature of seminal articles published in seven leading journals between 1998 and 2015[37]. This comprehensive review frames a crisis as, "an event perceived by managers and stakeholders as highly salient, unexpected, and potentially disruptive" (p.1662). It is a paradox that a crisis can simultaneously be both unexpected and predictable. David (2000) suggests that the precise cause of a crisis may be unexpected, but time mediates the impact of the crisis as it progresses rendering it predictable. We might not know the precise cause or origin of SARS-CoV-2 but a global pandemic was the number one risk on most advanced nations register of risks for the ten years prior to the outbreak of COVID-19 (The Economist, 2020). This section reviews the literature on crises typologies through the lens of this temporal-causal relationship.

Perrow (1984) in his book 'Normal accidents: Living with high-risk technologies', challenges the notion that crises are unexpected. Perrow argued that normal accidents or system accidents are inevitable in technologically complex systems and combined with organisational and management factors should be expected to occur. Given the multi-dimensionality of the systems involved (this work is based on an examination of the causes of the nuclear accident at Three Mile Island in Pennsylvania in 1979), failures in one part of the system will spillover into other parts of the system causing multiple failures to occur. Operator error, which may occur because of organisational or management failures, often accompanies such multiple failures (*ibid,* 1984).

The temporal-causal relationship blurs the boundaries of crises typologies. 'Man-made' crises stemming from technological or mechanical causes follow Perrow's 'normal accidents' (e.g., Coombs and Holladay, 2002; Rosenthal and Kouzmin, 1993). These are causally different from 'social' crises which are caused by human activities or threats such as misinformation or terrorism (e.g., Zuboff, 2019; Rike, 2003). Despite further attempts to delineate crisis by descriptive subsets e.g., mine disasters, oil spills, air disasters, crowd disasters, nuclear crises, terrorism or chemical explosions, personnel crises, information crises… (e.g., Mitroff and Alpaslan, 2003; Rosenthal and Kouzmin, 1993) there appears to be

[37] Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Journal of Management, Journal of Management Studies, Organization Science, and Strategic Management Journal. Based on citations in these original articles, the sample of literature was widened to include books, other relevant articles and research from public relations and communication practitioners.

consensus on ‘man-made’ and ‘social’ as fundamental crisis typologies. Other scholars focus on ‘natural’ crises caused by natural and environmental phenomena – often referred to as ‘acts of God’ (e.g., Windsor, Dowell and Graesser, 2014; Boin, *et al.,* 2010). The blurring effect of the temporal-causal relationship on the boundaries of these typologies reduces their utility. Take the climate crisis for example. The climate crisis is a natural, environmental phenomenon caused in large part by human activity over the past one hundred years, with the pace of global warming accelerating (IPCC, 2021). The climate crisis combines the man-made, social and natural crisis typologies. The temporal-causal relationship is central to an analysis and understanding of crises, whether typified as man-made, social, natural or combination, and raises a fundamental question: when does a crisis begin and end? One of Perrow’s (1984) key insights is that “big accidents almost always have very small beginnings”. The temporal aspect of crises can cause rapid acceleration or deceleration of events and slight changes in the initial stages can have large “butterfly effects” (Lorenz, 1993). Identifying the timeframe of each crisis is a critical methodological decision for this research (Chapter 5).

Mitroff and Alpaslan (2003) introduced the notion of a “combination crisis” (p.7). In their typology such crises combine natural, normal and what they call ‘abnormal’ crises which are akin to social crises caused intentionally or deliberately. Their research identifies seven groups of crises within the three types of natural, normal and abnormal. Natural crises caused by the environment (e.g., forest fires); normal crises caused by economic (e.g., recessions), physical (e.g., product failure) and personnel (e.g., sexual harassment) events; and abnormal crises caused by criminal (e.g., computer hacking); information (e.g., cyberattacks) and reputation (e.g., slander) factors. The purpose of these groupings is to provide a management tool to encourage managers to combine the different causes to prepare for crises that they, “cannot even imagine” (p.5). In an extension of the idea of combination crises this author considers the temporal-causal effect of AI systems (again, collectively artificial intelligence, machine learning and automation) in society and the economy.

The rapid adoption of technology has accelerated companies’ reliance on AI systems, which means the risks of AI are present (and growing) in many aspects of our lives (Kissinger, Schmidt and Huttenlocher, 2021; David, 2020). AI systems have two implications for this research: their effect at company-level and their potential to spillover into multiple parts of the system and amplify the harmful effects of a crisis at system-level (Perrow, 1984). AI systems have been estimated to be a $3.9 Trillion blind risk in the ESG framework used by investors (and governments) to incentivise companies to become more responsible (Lepere and Susman,

2021). Because AI systems analyse past data and project it forward, the temporal-causal relationship at the heart of crises is deepening, broadening and accelerating both the complexity of crises and the speed at which they can escalate (e.g., Burel *et al.,* 2020; Kshirsagar, Morris and Bowman, 2017). For example, harmful AI systems deployed inside a company's computer stack (i.e., the hierarchy of software and programmes) by vendors, third-party suppliers and contractors can rapidly escalate into a full-blown crisis and business failure. Such AI systems produced a combination effect to spark the financial crisis (Tett, 2009). Its impact has extended (and continues) beyond banking into the wider economy and into aspects of society in many parts of the world (e.g., Herzig and Moon, 2012; Lauesen, 2013; Carney, 2021). This study examines the relationship between intentional crises (as defined by Coombs (2020, 2007) and corporate responsibility between 2010 and 2019 – a period when AI systems are mainstream in MNCs and in the CAS in which they operate (e.g., Zuboff, 2019; Wu, 2017).

In summary, this thesis examines intentional crisis in line with SCCT (again Situational Crisis Communications Theory). Intentional crises are crises in which stakeholders strongly believe the company is responsible for the crisis and seek to apportion blame and remediate harm suffered (Coombs, 2007, 2005). As such, intentional crises most clearly align with the process and broadcasting of public accountability. SCCT offers an instrumental view of crisis management: from the management perspective it frames how corporate communication can be matched to stakeholder expectations to limit reputational damage, and from the stakeholder point-of-view it drives calls for public accountability. Scholars have extended SCCT primarily in response to digital media. Company responses to a crisis are moderated by the nature and penetration of social media (Stephens and Malone, 2009); the prevalence of social media 'influencers', 'followers' and 'inactives' who consume the content of social media indirectly and offline, often through word-of-mouth and/or traditional media (Liu, Austin, and Jin, 2011); and by culture (Zhu, Anagondahalli and Zhang, 2017). Coombs (2020) updated SCCT to reflect the prevalence of digital media and its effects on recommended company responses. While scholars have suggested moderations to SCCT the predominance of the theory's instrumental, company-centric view of crisis management remains unchallenged.

This study offers the potential of a different view of crisis management outcomes – one which brings stakeholder theory more strongly to bear on crisis management studies – than the traditional orthodoxy. Crisis management studies put the company at the centre of analysis and seek to explain how the outcomes of successful crisis management mitigate, reduce and

regain reputational (and financial) harm suffered by the company and its shareholders. Stakeholder theorists view the company as a nexus in which all stakeholders are interconnected and interdependent in the business of creating value for all stakeholders (Freeman, Phillips and Sisodia, 2018). Corporate responsibility can benefit the corporation by protecting the license to operate, retaining employee engagement, regaining market share and access to capital (as discussed earlier in this chapter); and, by definition, it also benefits the environment and society by reducing negative externalities and/or compensating for harms caused. Thus, an outcome of crisis management may benefit both the company's internal stakeholders (e.g., shareholders and employees) as well as its external stakeholders (e.g., customers, partners, regulators and society-at-large). To provide new insights, this study extends crisis management theory by bringing stakeholder theory to bear on an examination of the extent to which high levels of corporate responsibility are an outcome of intentional crises.

3.6. How do CEOs influence corporate responsibility and manage crises?

The CEO of an MNC (again, multinational corporation – the unit of analysis in this study) is the most senior officer of the company and its most senior decision maker (Drucker, 1974). CEOs exercise considerable influence over company strategy and are accountable for performance. CEOs influence strategy through their decision-making power; their ability to hire, fire and promote managers; to establish remuneration and incentive packages; and to be the focal point for internal and external stakeholder communications (Busenbark *et al.,* 2015). Ultimately, CEOs hold the decision-making power to decide the extent to which the company becomes responsible. All stakeholders, especially shareholders, hold CEOs personally accountable for company performance (Crossland and Chen, 2013). These expectations place CEOs at the heart of the debate between shareholder and stakeholder capitalism, one of the main motivations for examining their mediating effect on corporate responsibility as a response to crises.

Shareholders (as owners of the company's stock) have only supervisory oversight of the CEO (through their elected Board Directors) rather than direct power over executive decision-making. Shareholders' indirect oversight is the focus of the principal-agent problem that equity-based compensation packages for CEOs, together with their fiduciary duty to maximise shareholder value, resolves (Jensen and Meckling, 1976). In short, by exercising their legal duty to shareholders CEOs are simultaneously acting in their own economic interest. In their study of over 300 firms' CEO letters to shareholders over a ten-year period, Shin and

You (2019) demonstrated that a CEOs likelihood of dismissal[38] was significantly lower if (s)he consistently signalled adherence to the institutional logic of MSV through the language used. Conversely language consistently focused on stakeholders other than shareholders increased the likelihood of dismissal (*ibid,* 2019).

Scholars have found that CEO decision making can retard corporate responsibility in two key areas: tax avoidance and share buy-backs. There is a worldwide straining of the public purse, in part through a reducing share of corporate tax (UNDP, 2013). Sikka (2010) in his study of corporate tax avoidance and evasion, describes what he calls the "organised hypocrisy" (*ibid*, 2010, p.14) of companies implementing and reporting "social responsibility whilst at the same time, internal routines are geared to tax avoidance" (*ibid,* 2010, p.13). The US Department of the Treasury (2019) showed that corporate income tax receipts fell by 31% between 2017 and 2018 and they expect, "diminished corporate tax revenues in the years to come". Falling tax revenues limit governments' ability to tackle environmental challenges and to continuing funding public services such as education, transport and national security. Company tax avoidance (especially by MNCs) represents a significant negative impact on society.

Share buybacks are purchases by a company of its own stock, usually in open-market trading on the stock exchange(s) on which the company is publicly listed. Lazonick (2014, p.6) notes that "…the dividends to net income ratio for all US firms rose from 37 percent in the 1960s and 1970s to 46 percent in the 1980s to 58 percent in the 1990s to 63 percent in the 2000s." In short, companies used two-thirds of all net revenues, before operating expenses, tax, amortisation and depreciation, according to Lazonick, to "manipulate the stock price of their own shares (*ibid*, p.10)." Stock buybacks are part of a shift in corporate practice from what he has termed "value creation to value extraction" (Lazonick, 2014a, p.5). According to MSCI (a financial research company) total buybacks have exceeded total dividend payments every year since 1997 in two thirds of the largest US companies. (MSCI, 2018). In summary, CEO decision making (and fiduciary duty) to MSV in line with the institutional logic of the global financial system goes to the heart of the debate between shareholder and stakeholder capitalism. In the stakeholder view MSV constrains the potential for corporate responsibility by exerting coercive and mimetic pressure on managers to follow their peers and (legitimately) avoid taxes, generate short-term profits, and to favour distribution of profits in the form of dividends and

[38] The role of hiring and firing a CEO is the responsibility of non-executive directors appointed by shareholders (Shin and You, 2019).

share buy-backs over investment in the means of achieving high levels of corporate responsibility in the interests of stakeholders other than shareholders (e.g., Moon and Parc, 2019; Business and Sustainable Development Commission, 2017; Visser, 2011; DiMaggio and Powell, 1983).

In the stakeholder view of capitalism, the CEOs holds the decision-making power to determine the extent to which the company becomes responsible. Despite having this decision-making power, management and organisation scholars have found that CEOs are under coercive, mimetic, and normative pressures to limit the extent of their company's responsibility to a similar level as their peers (DiMaggio and Powell, 1983). Upper echelons theory holds that a CEO's personality, values, and experiences mediate their decisions, choices and actions as much as technical and professional proficiency (e.g., Hambrick and Mason, 1984; Hambrick, 2007). In line with this insight, scholars have examined the mediating effects of CEOs' personal characteristics on corporate responsibility. Researchers have found a positive linkage between company CSR and CEO education and gender (Manner, 2010) and background and experience (Slater and Dixon-Fowler, 2009). CEO age does not appear to be a significant factor (Oh *et al*., 2014). A CEO's personal values influence the company having a positive CSR outlook (Hambrick, 2007). Their political ideology is also instrumental; liberal CEOs are more likely to engage with social and environmental concerns (Chin, Hambrick and Treviño, 2013). Their personal career horizon can also determine their level of support for projects which have a long-term effect such as initiatives to reduce the company's environmental impact i.e., early in their career, CEOs are more supportive, an effect that weakens with tenure (Kahn *et al.*, 2020). The CEO's psychological bias, or what Diamond (2019) referred to as 'ego strengths', can also mediate company engagement in CSR (Tang *et al.*, 2015). Conversely, Chiu and Sharfman (2016), in their study of 248 U.S. public firms between 2001 and 2008, found that irresponsible CSR behaviour increases the likelihood of CEO turnover.

In addition to their influence over corporate responsibility in conditions of business-as-usual, the role of the CEO is critical in managing a crisis (e.g., Boin, Kuipers and Overdijk, 2013; James, Wooten and Dushek, 2011; Coombs 2007). The CEO has the authority to frame a crisis and establish the context in which other decision makers work and develop alternative strategic and tactical options to respond (e.g., Weick, 1996). As events happen in unfamiliar ways and often outside contingency plans, risk systems and mitigation strategies CEOs are forced to make decisions they would otherwise not be required to make (Bundy & Pfarrer, 2015). The CEO becomes the key spokesperson for the company in its interactions with various

stakeholders. (e.g., Coombs, 2020). Most tellingly for this study, crises place CEOs under unique public scrutiny. As company leaders and figureheads, they become the focus of attention (e.g., Daudigeos, Roulet and Valiorgue, 2018). Finally, the CEO has the authority and influence to pursue corporate responsibility as a response to crisis and disclose the degree to which it is achieved – as this research seeks to understand.

A crisis rapidly shifts events from the private to the public domain - where it is then played out. Stakeholders, especially those directly impacted by the crisis, demand an urgent response from the company (Daudigeos, Roulet and Valiorgue, 2018). Injured parties look for simple explanations and simple answers (e.g., Malle, Guglielmo and Monroe, 2012). The CEO often becomes the scapegoat or target of their ire and need for explanations as to how the crisis happened, who is to blame and who can put it right. As the crisis progresses, the CEO's former allies withdraw their support increasing his/her isolation and the public scrutiny he/she is under (Daudigeos, Roulet and Valiorgue, 2018). Blame avoidance becomes paramount for the incumbent CEO; accountability for any failures or failures in being prepared poses a serious threat to remaining in post (Sulitzeanu-Kenan, 2010; Hood, 2002). As the most senior executive manager, the CEO become the company's key spokesperson. Coombs (2004) SCCT (again, Situational Crisis Communication Theory) conceptualises an instrumental role for the CEO whose job is to limit the potential reputational damage caused by the crisis by aligning the company's communications with stakeholder expectations. However, CEOs' public statements, even in their official capacity, are not legally binding. Instead, accountability for not following through on a commitment risks reputational loss personally and/or corporately. By comparison, statements relating to stock price, or price sensitive information (e.g., denying a take-over bid) are legally binding to "increase market integrity and investor protection" (Market Abuse Exit Regulations 2019).

Fehre and Weber, (2016) analyse the content of CEO letters to shareholders in 110 German companies listed on the DAX[39] between 2003 and 2012. They find that "CEOs talk less about CSR in times of crisis" (p.1423). The crisis in their study being the financial crisis of 2008 which effected the whole economy. At the company-level researchers have identified crises as a source of learning for organisational preparedness and resilience to future crisis management procedures and readiness (Bundy *et al.*, 2017 James, Wooten and Dushek, 2011; Weick and Sutcliffe, 2006). Other studies have suggested that companies can manage crises

[39] The DAX is a stock market index consisting of 40 largest German companies trading on the Frankfurt Stock Exchange. DAX is the equivalent of the UK FTSE 100 and the US Dow Jones Industrial Average.

ethically, by doing the right thing or demonstrating genuine care for those harmed (Simola, 2003).

In sum, CEOs play a critical role in mediating a company's response to a crisis throughout its life cycle: from framing through sense making and decision making to communicating and absorbing public scrutiny. Faced with loss of profit, value and reputation the role of the CEO, becomes one of chief spokesperson whose principle aim is to restore stakeholder and investment community confidence in the firm's ability to resolve the crisis, to provide reassurance that such an eventuality is unlikely to recur, and to return to business-as-usual (e.g. Bundy *et al.*, 2017; Lins, Servaes and Tamayo, 2017; Mitroff, Pearson and Harrington, 1996). The focus is on the performance of corporate responsibility as part of crisis management procedures rather than as a goal in itself. Thus, crisis management literature stops short of explaining why becoming systemically responsible at a high level as a response to crisis is not happening in line with expectations. New analytic tools and new insights are needed to explain the paradox. This research seeks to provide both by examining company-specific crises and CEOs personal testimony, made under oath when theory expects reporting high levels of responsible behaviour are at a premium and to personal advantage. The CEOs are explaining their part in the crisis, explaining what happened and the remedial actions they and their companies are going to take. The level of corporate responsibility subsequently achieved twelve- and 24-months post-crisis is analysed using ESG measures. ESG disclosures are themselves a CEO choice and are part of their stakeholder communications.

In conclusion, this study asks, 'if not now, when?' Theoretically a crisis amplifies company motivations to become more responsible as a response to it. This thesis is motivated by the possibility of filling theory-based gaps in corporate responsibility and crisis management scholarship identified in this review of the respective literatures. There is an apparent shortfall in research into the performance of corporate responsibility as a response to crisis. Some studies imply that CSR performance is a desired outcome of a crisis, but it is not explicitly stated (e.g., Moreno and Kang, 2020; Bundy, *et al.,* 2017; Bachmann, Gillespie and Priem, 2015; James and Wooten, 2006). This study aims to fill this gap by operationalising a unique panel of ESG measures to assess the level of MNCs performance of corporate responsibility in response to a crisis. Crisis management scholars have focused on improved knowledge, monitoring and reporting procedures and training to improve crisis preparation as part of the discipline of crisis management (e.g., Bachmann, Gillespie and Priem, 2015; Haack *et al.,* 2012; Kern, Laguecir and Leca, 2013). Again however, a change in company behaviour as an explicit response to

crises which leads to the performance of a high level of corporate responsibility on an ongoing basis, is absent from crisis management literature. This research hopes to contribute to crisis management studies by examining corporate responsibility as an outcome of crises which benefits the company and the environment and society. In so doing it seeks to extend the orthodox, company-centric analysis of crisis outcomes in crisis management theory. This thesis also seeks to contribute by bringing public accountability theory to bear on both crisis management theory and corporate responsibility scholarship through an examination of the mediating effect of CEO personal accountability on corporate responsibility as a response to crises.

The next chapter sets out the analytic framework operationalised in this thesis. The novel framework delineates mechanisms of public accountability and specific effects which facilitate analysis of the extent to which holding CEO to personally account for crises is effective in motivating high levels of corporate responsibility. In so doing this thesis hopes to provide useful tools that make an empirically-based contribution to public accountability theory.

4. Analytical Framework

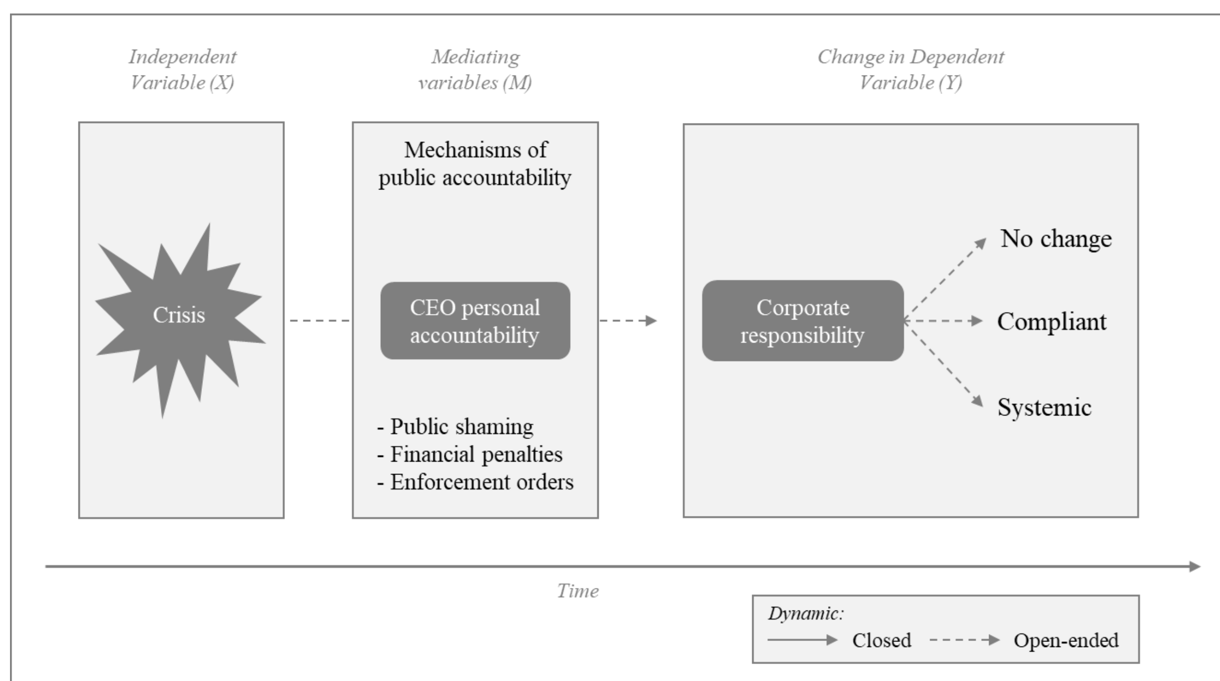
This chapter sets out the analytical framework for this thesis. The framework is a causal logic based on institutional change theory from political economy (e.g., Conran and Thelen, 2018; Mahoney, Mohamedali and Nguyen, 2018; Capoccia, 2015; Hacker, Pierson and Thelen, 2015; Hacker, 2005; Streeck and Thelen, 2005) and management and organisation studies (e.g., Greenwood *et al*., 2012; Bromley and Powell, 2012; DiMaggio and Powell, 1983). The framework is set out in Fig. 4.1. below.

Institutional change theorists conceptualise change in essentially one of two ways: stable or dynamic. The logic of path dependency and critical junctures portrays a crisis as a shock to an organisation which otherwise remains stable over long periods of time. The crisis may or may not shock the organisation into changing to a 'new equilibrium' which is 'locked-in' and 'irreversible' until the next critical juncture (e.g., Capoccia, 2015; Collier and Collier, 2007). This essentially stable view of change is challenged by an alternative view which depicts change as a dynamic phenomenon, which can occur in the absence of any crisis or shock to the prevailing equilibrium. Scholars identify five modes of dynamic change: (i) Layering is the change that occurs when layer upon layer of incremental amendments to rules and regulations obscure their original purpose; (ii) Converting is the process of change in which old rules and processes are converted to new goals or purposes; (iii) Depleting is a mode of change that involves the gradual depletion or exhaustion of rules to the point of their collapse or exhaustion; (iv) Displacing of old working practices with new models; and (v) Drifting is a process of change that occurs when the context changes around an existing policy, minimising its effectiveness or rendering it redundant (e.g., Conran and Thelen, 2018; Mahoney, Mohamedali and Nguyen, 2018; Hacker, Pierson and Thelen, 2015; Hacker, 2005; Streeck and Thelen, 2005).

The critical discriminator between the stable and dynamic approaches is time (Streeck, 2009). Stability theorists depict time as short periods (or episodes) of rapid change leading to long periods of relative stasis. As the periods of time in which the change occurs are so small relative to the periods of stability, the concept of time is "essentially irrelevant" to the analysis (Streeck, 2009, p.10). In contrast, dynamic theories view change as an accumulating process which takes place in organisations "all the time" (ibid, p.10). Management scholarship introduces the concept that organisations increasingly operate in CAS which are, "diverse and nonlinear, consisting of multiple interactive, interdependent and interconnected sub-elements"

(Waddock, et al., 2015, p.996). In CAS – theory rejects a conceptualisation of change as typically gradual and proportionate – dynamics are inherently unpredictable. These dynamics adapt to different forces and pressures and are subject to sudden state changes. When one actor does something it effects change and influences other actors to change (or not), and ultimately those changes come back round to influence the other actors in the system and other systems (Waddock et al., 2015). Such change 'happens' in time and can never 'un-happen' (David, 2000). The analytic framework recognises the VUCA (again, volatile, uncertain, complex and ambiguous[40]) world in which companies and their CEOs operate and in which change may or may not take place in response to a crisis.

Figure 4.1. Analytical framework



The independent variable (X) is corporate crises. CEO personal accountability (M) is hypothesised as the most explanatory variable which mediates the effect of (X) on the dependent variable (Y) corporate responsibility. In response to a crisis corporate responsibility can remain unchanged, be compliant, or systemic.

The chapter is set out in three sections. In section one, three changes to corporate responsibility in response to a crisis are anticipated: no change, compliant and systemic; each is discussed in turn. Section two details three mechanisms of public accountability: public shaming, financial penalties, and enforcement orders, which are expected to bring about

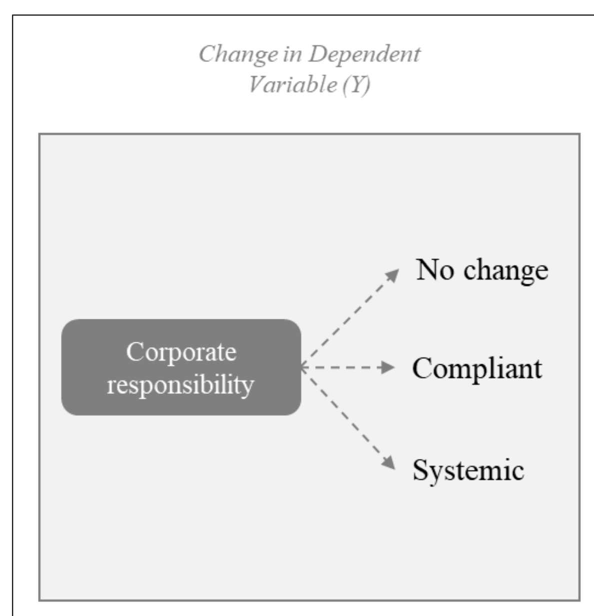
[40] Originally defined at the end of the Cold War by the US military (Stiehm and Townsend, 2002)

compliant or systemic change in corporate behaviour. Each mechanism leads to a proposition which can be examined empirically. To facilitate this examination direct and indirect effects of each mechanism are also identified. Section three draws together the three mechanisms and their respective direct and indirect effects to present a detailed novel framework to analyse the mechanisms of public accountability. The chapter concludes in section five by considering how the analytic framework can be operationalised in Chapter 5 – Methodology.

4.1. Anticipated changes in corporate responsibility

The analytic framework (Fig. 4.2.) sets out three changes to corporate responsibility anticipated by scholars in response to a crisis. This component of the framework is extracted in Fig. 4.2 below. Each change in the dependent variable (Y) in response to a corporate crisis (X) is discussed in turn.

Figure 4.2. Change in dependent variable (Y)



The first possible response to a crisis that this thesis anticipates is *'no change'* to a firm's corporate responsibility pre-and-post crisis. This anticipation draws on insights from crisis management studies and corporate responsibility scholarship. Company reputation is the most studied variable as an outcome of crisis communication by companies (Coombs and Holladay, 2015). The orthodox view is that a corporate crisis causes reputational harm which in turn imposes penalties on the irresponsible company (e.g., Gillespie and Priem, 2015; Gillespie and Dietz, 2009; Coombs and Holladay, 2002). Irresponsible behaviour is associated with penalties such as significant declines in market valuation (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019), increases in consumer activism against the company (e.g.,

Bhattacharya and Sen, 2004), and higher staff turnover (e.g., Gartenberg, Prat and Serafeim, 2016). The consensus is that penalties cause sufficient harm to the company to incentivise responsibility (Bachmann, Gillespie and Priem, 2015).

For Jackson, *et al*. (2014), the view of reputational loss as a powerful incentive is a "stubborn" view which persists despite the empirical evidence of continued and widespread corporate irresponsibility (*stet*, p.156). In their study of 1,776 US firms during the period 2006 to 2012, they find an inverse correlation between irresponsibility and a good reputation; a counter-intuitive relationship in which the more irresponsible firms enjoyed a better reputation than their relatively more responsible peers. The ratings of reputation were based on Fortune's 'World's Most Admired Companies' and many factors contribute to the ratings – including stock price performance. In his essay (as part of the same Discussion Forum), Karpoff (2014) explores the 'grey areas' in which profitability and socially beneficial activities by companies are pulling in opposite directions: greater profitability is less socially beneficial and *vice versa*. In such instances reputational sanctions do not appear to be a sufficient economic incentive to improved responsibility. These and other studies raise questions about loss of corporate reputation and harms suffered by the company as a result. The unresolved debate between shareholder and stakeholder capitalism also informs the idea of *'no change'* as the first possible response to a crisis. Advocates of the shareholder view argue that the predominant economic logic of MSV (again, maximising shareholder value) correctly crowds out what they would regard as excessive corporate responsibility, even after a crisis (e.g., Visser, 2011; Vogel, 2006). Building on these insights the first possible organisational effect of a crisis is that there may be *'no change'* in corporate responsibility.

This thesis brings public accountability scholarship and by extension regulatory pressure into a conceptualisation of post-crisis change. Regulatory response to a corporate crisis, particularly one that causes widespread public harm, often brings companies to public account (e.g., Bovens, Schillemans and Goodin, 2014). As part of the process of public accountability, regulators can order the company to take certain actions in the expectation that they lead to more responsible behaviour and reduce the risk of recurrence. Typically, such orders are imposed by regulators and enforced by the Courts in Consent Orders. In effect, the company agrees (and is legally obliged) to comply and undertake the reformative actions specified (Moore, 2014). Consent Orders reserve the right for regulators to appoint a monitor and/or to have regular reviews with the company to assess its progress in executing the agreed actions and complying with the Order's provisions. This research terms changes occurring in

corporate responsibility because of such Orders *'compliant change'*. To assess whether compliant change occurs (i.e. the company has become more responsible post-crisis or not) subsets of ESG measures aligned with the provisions of Consent Orders are deployed. Assessments of changes in the measures that make up these subsets are made at 12- and 24-months ex-post crisis (see Chapter 5 for a detailed explanation).

The concept of compliant change recognises that even though companies may comply with such Orders, the anticipated beneficial changes to corporate behaviour may not actually occur. In line with another stream of institutional theory from management and organisation studies, an unintentional decoupling may occur between the *means* of new organisational structures, working practices and monitoring procedures in the company (in line with regulatory orders) and the *ends* of more responsible behaviour (Bromley and Powell, 2012). Means-ends decoupling can occur because of another decoupling between new company rules and *policy* and the working *practices* required to put them into effect (Bromley and Powell, 2012). Such policy-practice decoupling can occur due to managers' and employees' partial or incomplete implementation of the new rules, or wilful avoidance of them. Crilly, Zollo and Hansen (2012) found that managers, in attempting to implement company policy, experience conflicting demands from internal and external stakeholders and 'muddle through' – instrumentally implementing policy to meet those demands they perceive to take priority and/or align with their personal interests. Scholars have also found that in MNCs (the unit of analysis in this study) gaps can open, between policy mandated centrally from HQ and its translation to and interpretation by foreign subsidiaries, causing decoupling (Gutierrez-Huerter O, *et al.*, 2019). Nevertheless, Consent Orders legally commit the company to becoming more responsible; this obligation can be expected to provide sufficient incentive for the company to report improved behaviour (even if the report is decoupled from the reality). The second change to a company's corporate responsibility pre-and-post crisis anticipated by this study is *'compliant change'*.

In response to a crisis the third and final change to corporate responsibility anticipated by this research is *'systemic change'*. The concept of systemic change draws on insights from public accountability research and its application to corporate responsibility. Public scrutiny aims to reassert, or to establish emerging, societal norms by committing companies to publicly stating new CSR goals to regain legitimacy following a crisis (Duff, 2009). Specifically, regulators (acting in the public interest) scrutinise company CEOs to explain the causes of the crisis, to accept responsibility for taking remedial action, and to minimise the risk to society of

a recurrence by becoming more responsible. Public accountability plays a key role in (re)establishing a post-crisis equilibrium. The expectation is of a positive feedback loop in which newly responsible corporate behaviour and disclosure drives legitimacy with stakeholders which in turn, fuels the maintenance or increase of ongoing responsible behaviour (Kuipers and 'T Hart, 2014). Although public scrutiny is backward looking, public accountability is primarily focused on reformation in the future because it is one of the "community's tools to regulate behaviour" (Malle, Guglielmo and Monroe, 2012, p.318). Such attempts to regulate behaviour may threaten the company's licence to operate and the associated legal privileges and protections it enjoys (Pistor, 2021). Threats to the company's licence to operate, and even existence, are expected to motivate a '*systemic change'* in corporate behaviour. The concept of systemic change is consistent with the definition of corporate responsibility adopted in this thesis i.e., it is integral to the company's business model and the impacts of the business model on strategies and practices, stakeholders, and the environment. To assess whether there is systemic change post-crisis a novel panel of ESG measures has been developed. Assessments of changes in the 27 measures that make up the panel are made at 12- and 24-months ex-post crisis (again, see Chapter 5 for a detailed explanation).

In building an analytical framework to examine the effect of a crisis (X) on corporate responsibility (Y) this study anticipates three possible modes of change a company may adopt as part of its response to a crisis: no change, compliant, and systemic. The next section of the framework considers the mechanisms of public accountability and their effects.

4.2. Mechanisms of public accountability

To conceptualise and operationalise CEO public accountability a novel sub-framework is developed in line with public accountability research. The essential questions about public accountability proposed by Bovens, Schillemans and Goodin (2014) are: who is accountable to whom, for what, by which standards and why? (*stet*, p10). Clearly, the answers to these questions are mediated by whichever side of the debate between shareholder and stakeholder capitalism one supports at any given time. The principal actors in this research are the public, CEOs, members of Congress and the Senate and government. The public demands that irresponsible corporate behaviour, perceived to have resulted in a crisis resulting in significant public harm, is held to account. Irresponsible companies' CEOs (as the most senior executive) are personally held accountable by members of Congress and the Senate, who are the peoples' elected representatives. Lastly, U.S. Government agencies and regulators as the

executive arm of the legislature aim to reassert societal norms, to remediate public harm, (which includes harms suffered by individual stakeholder groups), and to reduce the risk of recurrence via penalties imposed (e.g., Behn, 2001; Strøm, 2000).

In other words, the research is set in conditions that are favourable to proponents of stakeholder capitalism. In this context stakeholders' expectations of responsible corporate behaviour is the standard to which CEOs are held accountable and the reassertion of these societal norms is the fundamental justification for the exercise (Leader, 2014). This author builds on Mashaw (2014) and proposes that a temporal aspect is also important in considering questions of public accountability for a crisis. Simply stated *when* accountability is exercised is a confounding variable that mediates its nature and scope. The nature of crises is that they are unexpected and disruptive events which are harmful to stakeholders' interests and have relatively high public saliency (Bundy *et al*., 2017). Most exercises in public accountability occur relatively early in a crisis, before a consensus has developed on its causes, where the responsibility lies and whether any irresponsibility is in breach of the law. Public accountability is forced away from legal mechanisms (for a period at least) towards a principles-based, negotiated form of voluntary accountability (Moore and Brown, 2001). The negotiated accountability takes place between accountability principals i.e., regulators seeking accountability in society's interest and accountability agents i.e., companies, seeking legitimacy from society (Moore, 2014).

If they are to survive and prosper, modern companies require legitimacy or 'the licence to operate' (e.g., Mayer, 2018; Freeman, 2010). A company's licence to operate is the acceptance by the firm's stakeholders (who include the public) of the impact of the firm's operating practices and procedures on society and the environment. Stakeholders' expectations of companies and their trust in them to behave responsibly are implicit in the licence to operate (e.g., Pirson and Parmar, 2017; Herzig and Moon, 2012). The concept of social legitimacy is the foundation for three primary mechanisms of public accountability which form the basis of this study's propositions: *public shaming* (e.g., Daudgeos, Roulet and Valiorgue, 2018; Kuipers and 't Hart, 2014; Malle, Guglielmo and Monroe, 2012); *financial penalties* (e.g., Kahn et al., 2020; Guglielmo, Monroe and Malle, 2009); and *enforcement orders* (e.g., Albareda and Waddock, 2016; Garrett, 2014; Ioannou and Serafeim, 2014; Tetlock, *et al.*, 2013). Each mechanism and the proposition it implies is discussed in turn. The direct and/or indirect effects of each mechanism are identified to help explore the proposition. The manifestation of each

effect is identified on a three-point scale – low, medium, and high – to facilitate in-depth analysis.

4.2.1. Public shaming as a mechanism of public accountability

Public shaming as a mechanism of public accountability reflects the orthodox view that reputational harm can act as a powerful incentive to correct corporate behaviour (e.g., Bundy, *et al.,* 2017; Schillemans, 2013; Malle, Guglielmo and Monroe, 2012). When a crisis causes public harm, societies (and regulators as their delegates) need to find the person or organisation responsible. Blame must be apportioned so that the CEO (as the most senior executive of a company) or the company itself can be held to account and compelled to accept liability (e.g., Kuipers and 't Hart, 2014). Companies are forced into playing Hood's (2002) 'blame game' because irresponsible behaviour has a greater effect on reputation than responsible behaviour i.e., being found to be responsible for a crisis will carry disproportionate reputational cost (e.g., Bhattacharya and Sen, 2004; Weaver, 1986).

Current stakeholders' expectations of companies reflect increased expectations of corporate responsibility which is central to a company having a 'good' or 'bad' reputation (Chandler and Werther, 2014). A 'good' reputation for responsibility has been found to improve intention to purchase (e.g. Olson, *et al.,* 2016; Klein and Dawar, 2004), customer satisfaction, customer loyalty and affinity (Du, Bhattachary and Sen, 2010) as well as stakeholder relationships (e.g., Dias, Rodrigues and Craig, 2016; Schmeltz, 2016; Barnett, *et al.,* 2005) and can be a proof point for stakeholders building positive evaluations of the firm (Hur, Kim and Woo, 2013). A reputation for responsibility is in line with potential employees' values (Meyerson, 2003) reducing costs associated with employee recruitment, retention and increasing motivation (e.g., Wietrak, Rousseau and Barends, 2021; Costas and Fleming, 2009; McWilliams, Siegel and Wright, 2006). It follows that the loss of reputation caused by public shaming because of a corporate crisis is harmful to a company's sales, evaluation, and customer relationships and is likely to have a detrimental effect on employee recruitment, retention and motivation (Coombs and Holladay, 2015). Additionally, there is also evidence of reputational harm to stock valuation from irresponsible behaviour (e.g., Aouadi and Marsat, 2016; Karpoff, *et al*., 2005, 2008).

By publicly shaming a CEO following a crisis, regulators are drawing public attention to the gap between normative expectations and the company's behaviour (e.g., Rivoli and Waddock, 2011; McWilliams, Siegel and Wright, 2006). This gap is intended to cause

reputational harm personally to the CEO and corporately to the company. In turn, such reputational harm is expected to weaken the causal paths that scholars have established between a company's reputation for being 'responsible' and its beneficial effect on tenure and compensation at the personal level and to sales revenue, employee engagement and shareholder support at the firm level, for example. The weakening of such causal connections can lead to loss of tenure or compensation personally; and to lost sales revenues, reduced employee engagement and a weakening of shareholder support, which in combination are fundamental to a company's ongoing prosperity (e.g., Armour, Mayer and Polo, 2017; Karpoff, 2012). The concept of reputation is included in the International Financial Reporting Standards under 'goodwill'. In <IR> (again, Integrated Reporting), it is included as part of social and relationship capital (Eccles and Serafeim, 2014). It is anticipated that such fundamental losses, and threats to its very survival, will incentivise the company to undertake systemic responsibility (Daudgeos, Roulet and Valiorgue, 2018; Kuipers and 't Hart, 2014). Public shaming is a necessary condition of exploring causality between CEO accountability and systemic responsibility. As a mechanism of public accountability leads to this study's first proposition: ***P1. Tougher public shaming of CEOs incentivises companies to high systemic responsibility.*** This proposition can be explored in-depth by developing a nuanced framework in which the mechanisms of public shaming and their manifestation are analysed on a three-point scale: low, medium, and high.

Table 4.1. below details the mechanisms of public shaming. The twelve effects are listed in column 1 and defined in column 2. The manifestation of each effect is identified on a three-point scale in columns 3-5 and the evidence on which it is based is summarised in column 6. Finally, examples of the scholarly foundations for each effect, the manifestations of it and its evidentiary basis are listed at the bottom of the table. Each effect is discussed below. The twelve effects are based on a rhizome model i.e., in domains starting from the CEO domain at the centre, out to the corporate domain and beyond to the shareholder domain (Deleuze and Guattari, 1980). Each set of effects is listed in chronological order. The personal domain starts with the allocation of responsibility by the CEO (and successors), the effect on his/her tenure, legal status, legal accountability, compensation and compensation recovery. The corporate domain comprises the mechanisms of sales revenue and operating profits which examine the effect on company operations. The effects on shareholders in the shareholder domain are examined in four mechanisms: shareholder value, total shareholder return, shareholder turnover and Board oversight.

Table 4.1. Public shaming – mechanisms

Public shaming – mechanisms					
Effects (Domain)	*Definition*	*Manifestations*			*Evidence*
		Low	*Medium*	*High*	
Allocation of responsibility *(Personal)*	Allocation of blame in personal testimony given under oath in the public domain	Suppliers/ Partners ≥ 75%	Employees ≥ 75%	Self ≥ 75%	Use of personal pronouns in personal testimony (e.g., “I/me”, “we/us”, “they/them”)
Employment status *(Personal)*	Tenure post crisis	Continuation	Remain <12 months	Termination	Change in employment status
Legal status *(Personal)*	Legal status as ‘good’ or ‘bad’ leaver	Good leaver	N/A	Bad leaver	Legal status if termination
Legal accountability *(Personal)*	Personal civil or criminal indictments and resulting sanctions	In process, awaiting trial	Indictments	Sanctions	Publicly reported indictments and sanctions against the CEO
Compensation *(Personal)*	Changes in KPIs related to responsibility as % of CEO compensation	≤ 50% of compensation	Unchanged	≥ 50% of compensation	Increased or new KPIs related to responsibility as % of CEO compensation post-crisis compared to pre-crisis
Compensation recovery *(Personal)*	Non-payment and/or clawback of CEO incentive compensation	≤ 25bp of shareholder value	25-50 bp of shareholder value	≥ 75bp of shareholder value	Non-payment of bonus elements and clawbacks for years leading to crisis
Sales revenue *(Corporate)*	Gross income generated from selling goods and services	Increase	+/- 1%	Decrease	Changes to company sales revenues post crisis compared to pre-crisis
Operating profit *(Corporate)*	Operating income from core operations minus operating expenses	Increase	+/- 1%	Decrease	Changes to company operating profit post crisis compared to pre-crisis

Shareholder value *(Shareholder)*	Market capitalisation between start of crisis and end of CEO testimony	Gain	+/- 100 basis points	Loss	Change in market capitalisation
Total shareholder return *(Shareholder)*	Change in total shareholder return	Gain	+/- 1%	Loss	Changes to total shareholder return post crisis compared to pre-crisis
Shareholder turnover *(Shareholder)*	Choices made by largest shareholders of common stock	Loyal > 50%	Unchanged	Exit > 50%	Changes to Register of beneficial owners post crisis compared to pre-crisis
Board oversight *(Shareholder)*	Changes to CEO governance post-crisis compared to pre-crisis	Reduced	Unchanged	Increased	Additional independent Board Directors, CEO responsibilities
Sources (e.g.): *Allocation of responsibility:* Guglielmo, Monroe and Malle, 2009; Hall, 2002; Duff, 2009; Coombs, 2007; Eisenhardt, Graebner, and Sonenshein, 2016; Crilly, Hansen and Zollo, 2016. *Employment status:* Chiu and Scharfman, 2016; Crossland and Chen, 2013; Wade, *et al.,* 2006; Daudgeos, Roulet and Valiorgue, 2018. *Legal status:* Fisman, *et al.,* 2014; Finch, 1994. *Legal accountability:* McWilliams, *et al.,* 2018; Hsieh, *et al.,* 2018. *Compensation:* Ronnegard and Smith, 2018; Porter and Kramer, 2011; Karnani, 2011; Jensen and Meckling, 1976. *Compensation recovery:* Devers, *et al.,* 2014; Ballinger and Marcel, 2010; Quigley and Hambrick, 2014; Fitza, 2013; Crossland and Chen, 2013. *Sales revenue:* Grappi, *et al.,* 2013; Du, Bhattachary and Sen, 2010; Bhattacharya, Korschun and Sen, 2008. *Operating profit:* Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019; Mukunda, 2014. *Shareholder value:* Karpoff, *et al.,* 2005, 2008; Lerner and Tetlock, 1999; Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019. *Total shareholder return:* Grewal, Riedl and Serafeim, 2019; Amel-Zadeh and Serafeim, 2018; Quentin and Campling, 2017; Boesso, Favotto and Michelon, 2014; Ioannou and Serafeim, 2019. *Shareholder turnover:* Amel-Zadeh and Serafeim, 2018; Visser, 2011; Bachmann, Gillespie and Priem, 2015. *Board oversight:* Berle and Means,1932; Withers, Corley and Hillman, 2012; Dowell, Shackell and Stuart, 2011; Khan, *et al.,* 2020; Hung 2011.					

The **allocation of responsibility** is defined as the CEOs allocation of responsibility in personal testimony to regulatory authorities given under oath. It is a direct effect of public shaming. In what Hood (2002) calls, ‘the blame game’, regulators are attempting to lay responsibility (and liability) for a crisis at the CEOs feet, while CEOs are attempting to avoid accepting the blame. The regulatory authorities are expecting the CEO to have the capacity to

prevent the event; and an obligation to exercise that capacity to the extent possible. If the CEO is not responsible, then who? (Boin, 't Hart and McConnell, 2009). For their part, CEOs typically deploy two strategies in playing the blame game. The first is an attempt by CEOs to allocate blame away from themselves and the company on to others, or failing that, onto systemic factors or unprecedented events beyond their control as a means of exonerating themselves (e.g., Kuipers and 't Hart, 2014; Windsor, Dowell and Graesser, 2014). At the same time, signals of empathy with injured parties and promises to take steps to ensure 'it can never happen again' are deployed as part of the accountability negotiation. Analysing the content of the CEOs' personal testimony for personal pronouns reveals their strategy in playing the blame game (Crilly, Hansen and Zollo, 2016). Critically important in the analysis is what speech theorists call 'propositional content'. This is an admission by the CEO that there is irresponsible behaviour of some sort for which they take responsibility in some way (Green, 2021).

Use of 'I' and 'me' in 75% or more mentions of taking responsibility indicates a personal acceptance of the blame (high manifestation) compared to the use of 'they' and 'them' in 75% or more mentions which indicates a desire to shift the blame to others; possibly suppliers and/or partners (low manifestation). Use of 'we and 'us' in 75% or more mentions would indicate a collective acceptance which diffuses the responsibility among the company's workforce and implicitly reduces the level of personal responsibility (a medium manifestation) (Koch and Wüstemann, 2014). Collective responsibility frames blame for the crisis as an operational or technical problem for which employees, rather than senior management, can be held responsible (Kuipers and 't Hart, 2014).

The blame game is a crucial determinant of **employment status** as a second indirect effect of public shaming (Hood, 2002). CEOs can enjoy celebrity status which amplifies attention in the public media during a crisis (Wade, *et al.,* 2006). In a highly salient crisis, which results in public harm, people look for simple explanations of what caused the crisis and who is to blame. The CEO, as the figurehead of the company, can become a scapegoat (Daudgeos, Roulet and Valiorgue, 2018). Blame avoidance becomes paramount for the incumbent CEO and accountability for any failures or failures in being prepared, pose a serious threat to remaining in post (Sulitzeanu-Kenan, 2010). As the blame game is played out, and even before its conclusion, the CEO's alliances come under pressure. Concerned about a halo effect, supporters fear being associated with reputational damage and start to withdraw their support. The coalitions of interest surrounding CEOs start to breakdown and the CEO may be called upon 'to step down' (Daudgeos, Roulet and Valiorgue, 2018). Using a dataset of 248

companies publicly traded on US stock markets between 2001 and 2008, Chiu and Sharfman (2016) found irresponsible behaviour increases the likelihood of CEO dismissal.

Employment status is defined as tenure during and post-crisis. A high manifestation results in termination, a medium manifestation sees the CEO remaining in the company for 12 months or less, and a low manifestation of employment status as an effect of public accountability sees the CEO continuing in post.

Legal status as an indirect effect of public shaming is directly linked to employment status. Put simply, if the Board of Directors (representing shareholders) decides the CEO needs to be replaced, the manner of dismissal has legal implications and financial consequences (Fisman, *et al.,* 2014). There is a distinction in law between being classified as a 'good' or 'bad' leaver particularly in relation to shareholding. In companies that are traded on public stock markets the largest component of CEO remuneration is typically in the form of equity-based bonuses. Legal status on termination can have financial implications running into tens or hundreds of millions and even billions (Crossland and Chen, 2013). A good leaver leaves the company because they die, become disabled, or are found to have been unfairly dismissed - the absence of fault is the key determinant. Good leavers are entitled to a fair market price for their shares. In contrast, a bad leaver is fundamentally at fault for damaging the company or causing financial losses. Grounds for a dismissed CEO to be classed as a bad leaver include misconduct, fraud, bankruptcy, and failure to meet performance targets because of poor performance. Bad leavers may be required to forfeit shares and/or equity options.

As a legal concept, status on termination is open to interpretation and in certain circumstances the Board of Directors has discretion to decide (Allen & Overy, 2004). It is reasonable to anticipate that a CEO whose tenure is ended because of their responsibility for a crisis is classified as a bad leaver (a high manifestation). A good leaver status is a low manifestation which may be because the allocation of responsibility is yet to be determined, or because the company seeks to avoid liability (Crossland and Chen, 2013). Legal status is a binary effect of public shaming with no medium manifestation.

Public accountability may or may not involve **legal accountability**. Legal accountability in this framework is a direct effect of public shaming, defined as criminal or civil indictments and any resulting sanctions brought against the CEO. The US Department of Justice's Foundational Principles of Corporate Prosecution state that one, "of the most effective ways to combat corporate misconduct is by holding accountable all individuals who engage in

wrongdoing" (US Department of Justice Advisory Manual, 2018). CEOs brought to public account in the court of public opinion following a crisis may or may not also end up in the law Courts (McWilliams, *et al.,* 2008). The conservative and predominant public relations and legal viewpoint is that acceptance of responsibility is an admission of guilt in the eyes of the law. As a result, CEOs can be unwilling to accept personal responsibility or apologise for their role in a crisis. Patel and Reinsch (2003) offer a contrary opinion in their paper, 'Companies Can Apologise'. They argue that a personal or corporate apology is not necessarily interpreted in the law as acceptance of responsibility or liability. Further, they contend that that an apology can prove to be beneficial by limiting reputational damage and reducing settlement costs in legal actions.

It is important to recognise that CEOs and other company officers are typically covered by insurance which is purchased by the company explicitly to protect them and the company from allegations of wrongdoing in the course of their duties. Directors and Company Officers insurance ('D&O insurance' as it is known in the profession) generally comes with what is known as a "Side A" addition. This addition provides extra protections over personal assets so that not only is the company fully covered by this policy, the Directors and Officers are also personally covered. The effect of D&O insurance is to provide personal legal protections which can undermine the personal accountability intended in the law. The pervasiveness of D&O insurance limits but does not eradicate the role of legal accountability as a mechanism of public shaming (Finch, 1994).

A high level of legal accountability is self-evidently manifest in cases where the CEO has been sanctioned by the Courts for his/her role before, during or after a crisis. A low-level manifestation is where the legal proceedings are still in process and the case remains unresolved. Cases in which the CEO has been indicted but is awaiting trial can be regarded as a medium manifestation of legal accountability, at least until the outcome is known.

CEO **compensation** is the penultimate effect of public shaming in the personal domain; it is an indirect effect. In existing conceptualisations and applications of the theory of the firm, CEO compensation is founded on the concept of MSV (again, maximising shareholder value), or shareholder capitalism. MSV emerged in part to solve the principal-agent problem whereby shareholders as owners of a company, keen to maximise the returns on their investment, incentivised the company's managers (their agents) via performance pay schemes, typically in the form of equity-based bonuses (e.g., Ronnegard, and Smith, 2018; Karnani, 2011; Jensen and Meckling, 1976). This turns the CEO (and managers) of companies into

shareholders, potentially compromising their ability to act in the interest of other legitimate stakeholders (Bower and Paine, 2017), who include employees, customers, partners, regulators and society-at-large (Freeman, 2010). Recent studies have found that CEO compensation has been moderated by crisis. Studying the compensation of Bank CEOs following the global financial crisis of 2008, scholars found that bonus and discretionary elements of CEO compensation were reduced after the global financial crisis (Assenso-Okofo, Ali and Ahmed, 2020). Cerasi, *et al.,* (2020) further found that new regulatory guidelines on CEO compensation (in this case from the Financial Stability Board) found that variable compensation was moderated according to the risk profile of the activities of 139 banks in 36 countries. In essence, the riskier the bank operations, the less variable the CEOs' compensation (comparing periods pre-crisis and post-subsequent regulation) and *vice versa*.

Considering growing societal and environmental market pressures, state-of-the-art scholarship has questioned MSV's ability to systemically incorporate social and environmental responsibility into its modus operandi (de Bakker, *et al*., 2020). Scholars have argued that MSV has constrained CEO motivation towards CSR (Graafland and de Bakker, 2021), restricted company prosperity and potential (e.g., Lazonick, 2014; van der Zwan, 2014; Mukunda, 2014; Barton, 2011) and have called for the 'reimagining of capitalism' (Henderson, 2020). Such a finding is consistent with the concept of 'shared value' i.e., sharing of value with stakeholders other than shareholders (Porter and Kramer, 2011). As previously discussed, the CEOs of 188 of America's largest companies, recently issued and personally signed a 'Statement on the Purpose of a Corporation' which signalled a shift from shareholder capitalism to *stakeholder* capitalism (Business Roundtable, 2019). A crisis which results in sufficient public harm to warrant Congressional hearings in which the CEO is publicly held to account can be expected to moderate CEO compensation in favour of stakeholders other than shareholders.

Specifically, Key Performance Indicators (KPIs) related to corporate responsibility as a percentage of CEO compensation can be expected to be increased (or new KPIs added) post-crisis. Changes in KPIs related to responsibility equal to or less than 50 percent of CEO compensation post-crisis represents a low manifestation of compensation of public shaming as an indirect effect of public accountability. Changes in KPIs greater than or equal to 50 percent of compensation post-crisis is a high manifestation, and unchanged compensation represents a medium manifestation. This is in line with Cerasi *et al*. (2020), who found that variable compensation, "represents on average 51 percent of a CEO's total compensation" post-crisis (*stet*, p.6).

Compensation recovery is the last effect in the personal domain of public shaming. It is an indirect effect, defined as the non-payment and/or clawback of CEO incentive compensation. CEO remuneration packages are generally designed to align personal incentives with shareholder interests via the award of equity-based performance bonuses (e.g., Ronnegard and Smith, 2018; Karnani, 2011). Compensation recovery is typically initiated by the Board of Directors in their role as supervisors of the CEO[41]. In the event of a crisis the Board (representing shareholders' interests) can seek compensation for financial loss by non-payment of incentive elements of CEO compensation. If payments have already (or partially) been made to the CEO in the run up to the crisis without knowledge of the CEO's irresponsible behaviour, they can be clawed back. In effect, the CEO is required to return the money (Kahn *et al.*, 2020). Shareholders may also clawback previously awarded bonuses to signal Board oversight of the CEO as part of the company's crisis management strategy to limit reputational and financial loss (Coombs, 2020).

A high manifestation of compensation recovery as an indirect effect of financial penalties amounts to non-payment and/or payments returned of more than or equal to 75 basis points of shareholder value. A medium manifestation would be in the region of 25 to 75 basis points and a low manifestation would entail less than or equal to 25 basis points of shareholder value. Basis points (rather than percentages) are generally used by financial traders, analysts, and investors to describe price movement in financial markets to reduce the inherent ambiguity of percentages.

Sales revenue is one of two indirect effects of public shaming in the corporate domain. It is defined as the gross income generated by a company from selling goods and/or services. Gross income does not include deductions for bad debts or returned and undelivered goods and services. Scholars expect irresponsible behaviour to detract from intention to purchase, customer loyalty and affinity (e.g., Weber, *et al.,* 2021; Olson, *et al.,* 2016) and to negatively affect perceptions of the company (Klein and Dawar, 2004). An asymmetric effect occurs in which irresponsible behaviour that negatively impacts customer experience is more costly to companies than responsible behaviour is beneficial (Bhattacharya and Sen, 2004).

Public shaming is intended to signal irresponsible behaviour to the market for a company's goods and services. In so doing, public shaming is expected to decrease post-crisis sales revenues compared to pre-crisis levels in a high manifestation, to change by +/- 1 percent

[41] The regulator cannot, in normal circumstances, interfere with the internal affairs of a company, which under the law enjoys the same rights as a private citizen (Pistor, 2019).

in a medium manifestation and in a low manifestation to increase – confounding expectations. The one percent range in a medium manifestation is based on the widespread discount rate used by finance professionals in assessing capital allocation (Jacobs and Shivdasani, 2012). Changes to gross income is selected as a mechanism of public shaming because deductions for bad debts etc. are unlikely to be affected by public accountability.

Operating profit is the other indirect effect of public shaming in the corporate domain and is affected by sales revenue. Operating profit is selected because it is the income earned from the core operations of a business accounting for the cost of goods sold, operating expenses, depreciation and amortisation, and before the payment of interest and taxes. Operating income excludes peripheral activities such as investment income, or income from the sale of assets or foreign exchange dealing, or any kind of financial engineering (e.g., Knafo and Dutta, 2016; van der Zwan, 2014). Operating income reflects the profitability of the core activities of the business and its ability to generate future cash flows (Eccles and Serafeim, 2014).

Irresponsible behaviour is signalled to the market for a company's goods and services by public shaming. Operating profit can be anticipated to fall post-crisis compared to pre-crisis because of the negative impact on customers (Olson, 2013), perceptions of the company (Klein and Dawar, 2004) and stakeholder relationships (Bhattacharya, Korschun and Sen, 2008). Change to operating profit as an indirect effect of public shaming is anticipated to decrease in a high manifestation, change by +/- 1 percent in a medium manifestation, and increase in a low manifestation (Jacobs and Shivdasani, 2012).

Shareholder value is the first of four effects of public shaming in the shareholder domain. All are indirect effects. Shareholder value in this analytic framework is defined as the market capitalisation of a company between the start of a crisis and the end of the CEOs personal testimony to regulatory authorities. Coombs' (2004) SCCT (again, Situational Crisis Communication Theory) conceptualises an instrumental role for the CEO whose job is to limit the potential reputational damage caused by the crisis by aligning the company's communications with stakeholder expectations. The principal aim is to restore stakeholder and investment community confidence in the firm's ability to resolve the crisis, to provide reassurance that a similar eventuality is unlikely to recur, and to return to business-as-usual (e.g., Bundy *et al.*, 2017; Lins, Servaes and Tamayo, 2017; Mitroff, Pearson and Harrington, 1996). CEOs have a fiduciary duty to shareholders whose interests, given added urgency by the potential loss of profit and value caused by the crisis, are prioritised above the interests of

other stakeholders (Fehre and Weber, 2016). For companies whose shares are listed on public stock markets, shareholder support is critical to continued prosperity and firms with superior CSR performance are likely to have wider access to capital on better terms than their lower performing peers (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019; Amel-Zadeh and Serafeim, 2018).

Loss of shareholder value (i.e., a reduction in the market capitalisation of the company), between the start of the crisis and the end of each CEO's testimony to regulators, is a high manifestation of shareholder value as an indirect effect of public shaming. A gain in the market capitalisation indicates a low-level manifestation and a change of +/- 100 basis points in market capitalisation represents a medium manifestation. The 100-basis point range (i.e., one percent) is based on the widespread discount rate used by finance professionals in the ubiquitous practice of discounted cashflow analysis to assess capital allocation. Discounted cashflow is calculated by estimating the value of an investment, discounted by the cost of capital (Jacobs and Shivdasani, 2012).

Total shareholder return is another indirect effect that incorporates the price change of the company's shares pre- and post-crisis, including the reinvestment of relevant dividends for the period. Compounded daily return for the specified period is used to calculate total shareholder return. The dividend type is the most widely reported dividend for a stock market on which the shares are traded (gross or net). Total shareholder return is selected because it is a mainstream investment strategy deployed by both institutional and individual investors (Global Sustainable Investment Alliance, 2018). Scholars have found a positive link between total shareholder return and responsible company behaviour (Friede, Busch and Bassen, 2015). As discussed above, one of the primary roles of public shaming following a crisis is to signal to the capital markets and the investment community that a company has been irresponsible. Such a signal can be expected to put firms under reputational and financial pressure following a crisis (Coombs, 2020). Declining sales revenues and/or operating profits, potentially combined with payment of financial penalties, puts pressure on companies to cut dividend payments to shareholders.

News of a dividend cut, once announced by the CEO, in addition to the potential interruption of business-as-usual precipitated by the crisis, can cause the share price to fall encouraging some investors to sell some, or all, of their stake in the company (e.g., Ioannou and Serafeim, 2019; Quentin and Campling, 2017; Boesso, Favotto and Michelon, 2014). A loss of total shareholder return between the start and end of the crisis is a high manifestation of

total shareholder return as an indirect effect of public shaming. A gain in total shareholder return (possibly as an incentive to bolster shareholder loyalty) indicates a low-level manifestation, and a change of +/- 1 percent in total shareholder return represents a medium manifestation (Gartenberg, Prat and Serafeim, 2016). The one percent range is deployed in line with Jacobs and Shivdasani (2012).

Shareholder turnover is the third effect in the shareholder domain. Shareholder turnover is an indirect effect and is defined as changes in the percentage of common stock held by a company's largest shareholders (also known as beneficial owners) pre- and post-crisis. For example, US Securities and Exchange Commission (SEC) rules make it mandatory for companies whose shares are listed on US stock markets to make annual filings, which must contain a register of such beneficial owners. Investors are 'the arbiters of materiality' and according to the SEC, "have been overwhelmingly clear in their views that climate risk and other ESG matters are material to their investment and voting decisions" (Herren Lee, 2021).

In the event of a crisis, where the CEO has been held to public account for irresponsible behaviour, and where the company's reputation has been challenged by regulators as an indirect effect of enforcing public accountability, scholars would expect shareholders to liquidate or reduce their shareholding in the firm (e.g., Gupta and Kumar, 2018; Hirschman, 1970). A liquidation or exit of over 50% of the largest shareholders of common stock indicates a high manifestation of shareholder turnover. Shareholders maintaining the same investment position is a medium manifestation; and over 50% of the largest shareholders remaining loyal and maintaining their position is a low manifestation (Hirschman, 1970).

Board oversight is the final effect of public shaming both in the shareholder domain and overall. It is indirect and is defined as changes to CEO governance that are implemented by the company during or after a crisis. The CEO is appointed by the Board of Directors and ratified by the shareholders as the most senior executive in the company. The CEO reports to the Board and is the main line of communication between the Board and executive management (Berle and Means, 1932). CEOs can consider themselves to be 'a breed apart' (Wade *et al.,* 2006) and become overconfident (Westphal and Deephouse, 2011). MNCs are vulnerable to CEO power or capture (e.g., Velte, 2019; Onali, *et al.,* 2016). Internally, the deference of executives and other employees is "innate" within companies (Lin, 2014). Externally, shareholders (as owners of the company's stock) have only supervisory oversight (through their elected Board Directors) rather than direct power over executive decision-making (the

principal-agent problem). Public shaming of the CEO for their role in the crisis can highlight weak oversight of the CEO by the Board of Directors (Westphal and Deephouse, 2011).

In such cases, it is common for oversight of the CEO to be voluntarily changed at the insistence of shareholders and/or their elected Board. Such changes can include the appointment of additional independent Board Directors, separation of the Chairman and CEO roles, and changes to CEO responsibilities. Increased oversight of the CEO by the Board of Directors (indicates a high manifestation) reduced oversight (indicates a low manifestation) and no change (indicates a medium manifestation) of CEO oversight as an indirect effect of public shaming.

In summary, public shaming as a mechanism of public accountability is founded on a belief in the power of reputation to act as an incentive to systemic corporate behaviour (e.g., Coombs, 2020; Bundy and Pfarrer, 2015; Malle, Guglielmo and Monroe, 2012). The twelve effects of public shaming are analysed in three domains. In the personal domain: allocation of responsibility, employment status, legal status, legal accountability, compensation, and compensation recovery. In the corporate domain: sales revenue and operating profit. In the shareholder domain: shareholder value, total shareholder return, shareholder turnover, and Board oversight. Each is manifest at different levels: low-medium-high. Public shaming is a necessary condition of exploring causality between CEO accountability and systemic responsibility. The effects of public shaming as a mechanism of public accountability are weighted to indirect effects in line with the concept of reputational harm as an outcome of a corporate crisis (e.g., Coombs and Holladay, 2015). Of the twelve effects, only allocation of responsibility and legal accountability are direct effects. This framework facilitates a nuanced exploration of the proposition that public shaming of CEOs motivates companies to systemic responsibility (P1.) helping us understand the extent to which holding CEOs to account personally for crises effects corporate responsibility. The second mechanism of public accountability deployed by regulatory authorities is financial penalties.

4.2.2. Financial penalties as a mechanism of public accountability

Financial penalties are fines and fixed penalties issued by the authorities as a means of sanctioning companies for what is adjudged to be irresponsible behaviour. They reflect the orthodox view that financial loss acts as a key incentive to correct corporate behaviour (e.g., Bundy *et al.,* 2017; Crossland and Chen, 2013; Herzig and Moon, 2012). Financial penalties are intended to signal irresponsible behaviour to the market which may result in the recovery

of personal compensation, damage to stakeholder relationships and ultimately company profitability (Grappi *et al.,* 2013). Financial penalties are also intended to signal irresponsible behaviour to the capital markets with the anticipation that a company's access to capital will become more difficult and on worse terms than it previously enjoyed (Amel-Zadeh and Serafeim, 2018).

The use of financial penalties as a mechanism of holding CEOs and companies to public account for a crisis reveals what Behn (2001) calls the 'accountability bias'. This is a bias on the part of regulators to favour mechanisms of accountability that are financial and process based. Financial penalties reveal three things about the regulatory mindset. Firstly, regulators recognise that environmental, social, and to a lesser extent, governance outcomes often occur in long timeframes and are difficult to measure. By comparison, payments made by a company offer immediate compensation for the public harm caused by a crisis (*stet*). Secondly, the payment of financial penalties by companies for irresponsible behaviour is a relatively frictionless and low-cost transaction for the regulatory authorities (OECD, 2006). Thirdly, financial penalties reveal a lack of trust in CEOs' promises 'to put things right' following a crisis (Mansbridge, 2014). Sanction-based accountability, such as financial penalties, is typically conditional. In agreeing to accept a certain quantum of payment, regulators stipulate specific actions they require the company to take, to reduce the risk of recurrence. The payments and reformative actions are mutually agreed upon as part of the settlement between the regulator and the company. For added measure, the quantum of the financial penalty, the payment terms, and the required organisational and procedural reforms are generally enforced by Court Orders – legally obliging the company to comply (OECD, 2006).

In sum, financial penalties offer regulators the prospect of a relatively fast means of remediating public harm with minimum transaction costs and a vehicle to order corporate reforms and elicit public commitments from the company to become more responsible. The negotiated agreement is underpinned by a legal settlement which forces a company to comply with its terms and take the reformative actions prescribed. Financial penalties, can thus be considered a necessary and sufficient condition of exploring causality between CEO accountability and compliant responsibility. As the second mechanism of public accountability, they are the foundation of this study's second proposition: ***P2. Larger financial penalties incentivise companies to high compliant responsibility.*** The analytical framework is extended to develop the effects of financial penalties and their manifestations to explore this proposition.

The concept of materiality is intrinsic to the financial penalties mechanism and its effects. Information, both quantitative and qualitative about a company, is material "if a reasonable person would consider it important", in making an investment decision (Herren Lee, 2021). This analysis assumes that all financial penalties and effects of mechanisms are material.

Table 4.2. below details the effects of financial penalties. Three effects are listed (column 1), defined (column 2), made manifest on a three-point scale (columns 3-5), evidenced (column 6) and supported by scholarly foundations (at the bottom of the table). Each effect is discussed in turn.

Table 4.2. Financial penalties – effects

Financial penalties – direct and indirect effects					
Effects	*Definition*	*Manifestations*			*Evidence*
		Low	*Medium*	*High*	
Corporate fines	Corporate fines for crises paid to US agencies	Bottom quartile	Middle quartiles	Top quartile	Distribution of aggregate annual corporate criminal penalties paid to US Government (2000-2018)
Corporate penalties	Penalties for crises paid to US agencies by companies	Bottom quartile	Middle quartiles	Top quartile	Distribution of aggregate annual corporate criminal penalties paid to US Government (2000-2018)
Settlements	Settlements with companies for crises paid to US agencies	Bottom quartile	Middle quartiles	Top quartile	Distribution of aggregate annual corporate criminal penalties paid to US Government (2000-2018)
Sources (e.g.): *Corporate* fines*, penalties, and settlements:* Garrett, 2020; Lund and Sarin, 2020.					

Corporate fines are a direct effect of the mechanism of financial penalties. Corporate fines are relatively self-explanatory; they are fines levied by the regulator(s) or government agency(ies) on companies for their perceived role in a crisis. **Corporate penalties** are another direct effect and differ from fines in that they can take the form of non-payments which are intended to directly curtail company activities. For example, the Federal Reserve System restricted Wells Fargo from growing any larger than its total asset size as of the end of 2017 until the regulator

decided that sufficient progress had been made in carrying out the provisions of the Consent Order[42].

Settlements can be a direct or indirect effect of financial penalties. In line with legal practice, a financial settlement can be paid by the company to 'settle' the case with regulators (Lund and Sarin, 2020). Settlements can also involve schemes devised by companies and regulators to remediate public harm. For example, in 2016, BP paid $20.8 billion in a series of agreements with the US Department of Justice in part to restore and conserve habitat, water quality and coastal and marine resources.[43,44]. Such settlements are an indirect effect of financial penalties. Direct or indirect financial payments are the common denominator of the three effects of financial penalties as a mechanism of public accountability.

This study is indebted to Garrett and colleagues (2020) for their work in compiling a dataset of aggregate annual corporate penalties paid to US Government agencies between 2000 and 2018. Their dataset provides a benchmark against which low, medium, and high manifestations of corporate fines, corporate penalties, and settlements as effects of financial penalties can be assessed. Corporate fines, penalties, and settlements are defined as penalties issued specifically in connection with each crisis paid to US agencies. The timeframe of this study (2010-2019) coincides with a period when the US Department of Justice pursued a policy of large-scale settlements using deferred and non-prosecution agreements with companies which resulted in larger financial penalties than had been the case previously (Garrett, 2014).

A high manifestation of each of corporate fines, corporate penalties, and settlements as effects of financial penalties amounts to penalties in the top quartile of aggregate annual corporate criminal penalties paid to US Government agencies between 2000 and 2018. A medium manifestation would be payments falling in the middle quartiles of aggregate penalties and a low manifestation would be payments falling in the bottom quartile of aggregate penalties.

To sum up, financial penalties are intended by regulators to have three primary effects. Firstly, they are a means of immediately and inexpensively raising funds to compensate the

[42] Growth was defined as, "the average of WFC's total consolidated assets reported in line 5 of Schedule HC-K to the form FR Y-9C (Consolidated Financial Statements for Holding Companies) for the current calendar quarter and the immediately preceding calendar quarter to exceed the total consolidated assets reported as of December 31, 2017, in line 12 of Schedule HC to the form FR Y-9C [Consolidated Financial Statements for Holding Companies]" (Wells Fargo & Company, Consent Order, (2018).
[43] (Deepwater Horizon oil spill settlements: Where the money went | National Oceanic and Atmospheric Administration, 2017)
[44] (US Department of Justice, 2016)

public for harm suffered because of a crisis. Secondly, financial penalties are intended to act as a signal to capital markets. The expectation is that this signal may cause shareholders to apply coercive pressure on the CEO and senior management to improve corporate responsibility as a response to the crisis. Thirdly, financial penalties offer a vehicle to legally enforce mutually agreed upon reformative actions on a company with the aim of reducing the risk of recurrence. Financial penalties can be considered a necessary and sufficient condition of exploring causality between CEO accountability and compliant responsibility. Such reformative instructions from the regulatory authorities foreshadows the third and final mechanism of public accountability - enforcement orders.

4.2.3. Enforcement orders as a mechanism of public accountability

Enforcement orders are the third mechanism of public accountability. Enforcement orders typically take the form of specific actions the authorities wish the company to take following a crisis with the aim of reducing the risk of recurrence. Enforcement orders reflect the view that a company's 'licence to operate' is the acceptance by the firm's stakeholders (who include the public) of the impact of the firm's operating practices and procedures on society and the environment (Agle, *et al.*, 2008). A crisis that results in public harm represents an unacceptable impact of the firm's activities (Malle, Guglielmo and Monroe, 2012). The licence to operate also extends to legal privileges and protections of company assets such as capital (and debt), skills and intellectual property, which are central to companies' continued existence and prosperity (Pistor, 2019). Irresponsible behaviour, even that which results in a crisis causing public harm, is not illegal behaviour. Regulators are limited in how far and how deep they can reach into a company, which is private property, and which enjoys the same legal rights as a citizen (e.g., Thompson, 2020; Ireland, 2008). To some extent this constraint underpins why many of the effects of public accountability are indirect. CEO blaming and shaming, such as occurs in Congressional hearings, has been found to express regulatory frustration at not being able to reform the company sufficiently to reassert violated norms (Duff, 2009). The limits of regulatory reach give rise to questions of trust in the company to take the desired reformative actions. In addition to the limitations of regulatory reach, there is also a regulatory bias in favour of process accountability (Behn, 2001).

Enforcement orders are a mix of process accountability and outcome accountability. Process accountability is focused on inputs and favours the monitoring and evaluation of performance (usually against targets) towards desired goals. In contrast, outcome accountability is focused on outputs and favours evaluation of outcomes (Tetlock, *et al.,* 2013).

Each result in a dilemma: what process accountability gains in control and limiting decision-making along desired lines, it loses in innovation towards achieving the desired outcome. What outcome accountability gains in flexible and goal-orientated thinking, it loses in the risk of opportunistic behaviour, wherein the company plays the game without really focussing on the outcome of responsible behaviour (Patil, Vieder and Tetlock, 2014). There is also evidence that process accountability, in the form of industry regulation for example, levels the playing field and acts as a disincentive for innovation. If regulation applies to all companies and produces equally responsible behaviour, the opportunity for competitive advantage is reduced and the possibility of a compliance (and even a gaming) mindset is increased (Ioannou and Serafeim, 2019). Regulators issuing enforcement orders following a crisis often seek to find a hybrid accountability - a mix of process and outcome accountability – in a combination of legally enforceable reformative actions the company is expected to take (Mansbridge, 2014).

The role of leadership, particularly the CEO's role, is critical in crisis management before, during and after a crisis (e.g., Coombs, 2020; Mitroff, Pearson and Harrington, 1996). Leadership is also critical if the crisis is to become a learning opportunity for the company (e.g., Boin, Kuipers and Overdijk, 2013; James, Wooten and Dushek, 2011; Lampel, Shamsie and Shapira, 2009). Enforcement orders are negotiated between the regulators and the company and are generally enforced by Court Orders (Garrett, 2014). The CEO (or his/her successor), as the company's most senior executive, would normally play a leading role in the negotiations (OECD, 2006). Other Board Directors, notably the Chairperson, will also be involved in the negotiations. The Board will also have to ratify the agreement before the company settles (Joseph, Ocasio and McDonnell, 2014). Having taken personal responsibility for the crisis and for putting it right, and been a party to the enforcement order, which is underpinned by the Courts, the CEO can be expected to lead the company's compliance with its provisions. As a failsafe, the Board have a responsibility to oversee the CEO's activities to fulfil the company's legal commitment. Finally, Board Directors also have a personal duty to ensure compliance having approved the agreement on behalf of the shareholders and signed the legal Consent Order (Chintrakarn, Jiraporn and Treepongkaruna, 2021). Put simply, enforcement orders are issued in the anticipation that the company will comply and take the stipulated actions. As such, enforcement orders can be considered as a necessary and sufficient condition of inferring causality between CEO accountability and compliant responsibility. The anticipation of compliance is the basis of this study's third proposition: ***P3. More enforcement incentivises companies to high compliant responsibility.*** This proposition can be examined by analysing

the effects of the mechanisms of enforcement orders on a three-point scale: low, medium, and high.

Table 4.3. below details the mechanism of enforcement orders. The table follows the same format as the mechanisms of public shaming and financial penalties. Ordered responses and signalled intentions are the direct and indirect effects of enforcement orders respectively and are discussed below.

Table 4.3. Enforcement orders – effects

Enforcement orders – direct and indirect effects					
Effects	*Definition*	*Manifestations*			*Evidence*
		Low	*Medium*	*High*	
Ordered responses	Reformative actions imposed by regulators and agencies on the company	Negligible compliance ≤ 25%	Partial compliance 25-75%	Substantive compliance ≥ 75%	Changes to aligned ESG disclosures post-crisis compared to pre-crisis
Signalled intentions	The company's stated discretionary reformative actions	Negligible compliance ≤ 25%	Partial compliance 25-75%	Substantive compliance ≥ 75%	Changes to aligned ESG disclosures post-crisis compared to pre-crisis
Sources (e.g.): *Ordered responses:* Leader, 2014; Guglielmo, Monroe and Malle, 2009; Kahn, *et al.,* 2020; Albareda and Waddock, 2016; Bachmann, Gillespie and Priem, 2015. *Signalled intentions:* Coombs, 2020; Ham and Kim, 2020; Bachmann, Gillespie and Priem, 2015.					

Ordered responses are a direct effect of enforcement orders. They are defined as the reformative actions imposed by regulators and agencies on the company. **Signalled intentions** are a statement of the reformative actions the company intends to take at its discretion, over and above what it is mandated to do. It is classified in this framework as an indirect effect of enforcement orders because it is a discretionary action by the company. Although discretionary, signalled intentions are often included in the final negotiated agreement between the regulator and the company. These agreements are underwritten by the Courts in the form of Consent Orders.

Consent Orders are defined in this thesis as legally binding agreements between regulatory authorities and the company. As discussed above, public accountability typically results in a negotiated settlement in which the regulator and the company agree to a set of

reformative actions in anticipation that their effect will be to reduce or eliminate the risk of recurrence of the crisis. Such agreements are called Deferred Prosecution Agreements (DPAs). DPAs postpone prosecution until the company can demonstrate improved responsibility, require the payment of a fine, and describe the defendant's conduct, cooperation, and remediation, if any (United States Sentencing Commission, 2022). Communication of when and how these reforms are initiated and how they are progressing is central to the company rebuilding trust after a crisis (Bachmann, Gillespie and Priem, 2015). CEOs have every incentive to comply with enforcement orders. Change to 75 percent or more of the ESG (again, environmental, social, governance) disclosures that are aligned with the provisions of the Consent Order post-crisis can be considered substantive and represent a high manifestation of ordered responses and signalled intentions as effects of enforcement orders. Partial compliance, i.e., change in aligned ESG disclosures between 25 percent and 75 percent, represents a medium manifestation. Change to aligned ESG disclosures of 25 percent or less is regarded as negligible compliance and a low manifestation of Court orders.

The fourth and final proposition in this research combines the mechanisms of public accountability: public shaming, financial penalties, and enforcement orders which the authorities anticipate will reassert violated norms and obligate the company to compliant and systemic responsibility (e.g., Schillemans, 2016; Duff, 2009). Public shaming as a mechanism of public accountability seeks to motivate systemic responsibility by inflicting reputational damage on the CEO and the company. Financial penalties combine effects of sanction and incentivisation. Enforcement orders, negotiated by the CEO and approved by the Board of Directors, seek to coerce compliant responsibility through the effects of process and outcome accountability. In combination, the triad of public shaming, financial penalties and enforcement orders is a sufficient condition of inferring causality between CEO accountability and compliant and systemic responsibility. anticipated to obligate a company to both compliant and systemic responsibility following a crisis. This anticipation is the foundation of the final proposition to be examined in this research. ***P4. Combining tougher public shaming, larger financial penalties and more enforcement orders incentivises companies to high compliant and systemic responsibility.***

This proposition is explored by an examination of changes in selected ESG disclosures pre- and post-crisis. Communication by the CEO and the company aimed at rebuilding reputation, legitimacy, and trust after a crisis, is central to all crisis management scholarship (e.g., Ham and Kim, 2020; Bachmann, Gillespie and Priem, 2015; Gillespie and Dietz, 2009;

Coombs, 2007). The relationship between communication of responsible behaviour and reputation is the single most studied variable in crisis management scholarship (Coombs and Holladay, 2015). The framework (organised in a now familiar fashion) for analysing reported responsibility is set out in Table 4.4.

Table 4.4. Combined public shaming, financial penalties and enforcement orders - effects

Combined public shaming, financial penalties and enforcement orders – effects					
Effect	*Definition*	*Manifestations*			*Evidence*
		Low	*Medium*	*High*	
Reported responsibility	Change in selected ESG disclosures	Negligible change ≤ 25%	Partial change 25-75%	Substantive change ≥ 75%	Changes to selected ESG disclosures post-crisis compared to pre-crisis
Sources (e.g.): *Reported responsibility:* Bannier, *et al.,* 2019; Dyck, *et al.,* 2019; Cheng, Ioannou and Serafeim (2013); Bundy, *et al,* (2017).					

A high manifestation of reported responsibility is indicated by compliant and systemic change to 75 percent or more of the selected ESG measures. A medium manifestation is indicated by a partial change to 25 percent to 75 percent of selected measures and a negligible change to 25 percent or less is a negligible change. Again, subsets of ESG measures are aligned with the provisions of Consent Orders to assess compliant change post-crisis and a novel panel of ESG measures is deployed to assess systemic change. Assessments of changes in the measures that make up these subsets are made at 12- and 24-months ex-post crisis.

4.3. A novel framework to analyse the mechanisms of CEO personal accountability

The weight of research across six academic disciplines[45] into public accountability settles on the need for more public accountability (Schillemans, 2013). It is a need on the part of society and government that Bovens and Schillemans (2014) call the 'accountability deficit'. The accountability deficit is the perceived need for ever greater accountability in "a standardised and publicly accessible form" to regulate irresponsible behaviour (*stet*. p.674). The emphasis is on the *quantity* of accountability i.e., more rules, and more regulation to regulate behaviour in line with normative values (Flinders, 2014). This thesis seeks to contribute by examining the *quality* of public accountability. The analysis focuses on CEO

[45] Public administration, constitutional law, political science, international relations, accounting and business administration, and social psychology (Schillemans, 2013).

personal accountability as the most explanatory variable of the causal relationship between crises and corporate responsibility. The analytical framework builds on the important distinction drawn by de Boer (2021) between voluntary and mandatory responsibility to examine a negotiated accountability agreed by regulators and companies post-crisis.

Axiomatically, public accountability occurs in the past but its focus, in the public interest, is on reformation of corporate behaviour in the future (Malle, Guglielmo and Monroe, 2012). Three modes of reformed corporate behaviour are anticipated because of holding CEOs to public account: no change, compliant change, and systemic change. These changes are expected to be brought about by three mechanisms of public accountability: public shaming, financial penalties, and enforcement orders. Table 4.5. (below) brings these three mechanisms together. Each mechanism is listed in column 1. Column 2 details the effects of each – 17 in total – and their domain: personal, corporate or shareholder as relevant. Each effect is defined in column 3. Finally, columns 4 and 5 identify the manifestation of each effect on a three-point scale of low, medium and high.

Table 4.5. A novel framework to analyse the mechanisms of CEO personal accountability

Mechanism	*Effect (Domain)*	*Definition*	*Manifestation*	
Public shaming	**Allocation of responsibility** *(Personal)*	Allocation of blame in personal testimony given under oath in the public domain	*Low*	Supplier/Partner ≥ 75%
			Medium	Employees ≥ 75%
			High	Self ≥ 75%
	Employment status *(Personal)*	Tenure post-crisis	*Low*	Continuation
			Medium	Remain <12mths
			High	Termination
	Legal status *(Personal)*	Legal status as ‘good’ or ‘bad’ leaver	*Low*	Good leaver
			Medium	N/A
			High	Bad leaver
	Legal accountability *(Personal)*	Personal civil or criminal indictments and resulting sanctions	*Low*	In process
			Medium	Indictments
			High	Sanctions
	Compensation *(Personal)*	Changes in KPIs related to responsibility as % of CEO compensation	*Low*	≤ 50% of compensation
			Medium	Unchanged
			High	≥ 50% of compensation
	Compensation recovery *(Personal)*	Non-payment and/or clawback of CEO incentive compensation	*Low*	≤ 25bp of shareholder value
			Medium	25-50 bp of shareholder value

			High	≥ 75bp of shareholder value
	Sales revenue *(Corporate)*	Gross income generated from selling goods and services	*Low*	Increase
			Medium	+/- 1%s
			High	Decrease
	Operating profit *(Corporate)*	Operating income from core operations minus operating expenses	*Low*	Increase
			Medium	+/- 1%s
			High	Decrease
	Shareholder value *(Shareholder)*	Market capitalisation between start of crisis and CEO testimony	*Low*	Gain
			Medium	+/- 100 bp
			High	Loss
	Total shareholder return *(Shareholder)*	Change in total shareholder return	*Low*	Gain
			Medium	+/- 100 bp
			High	Loss
	Shareholder turnover *(Shareholder)*	Choices made by largest shareholders of common stock	*Low*	Loyal > 50%
			Medium	Unchanged
			High	Exit > 50%
	Board oversight *(Shareholder)*	Changes to CEO governance post-crisis compared to pre-crisis	*Low*	Reduced
			Medium	Unchanged
			High	Increased
Financial penalties	**Corporate fines**	Penalties for crises paid to US agencies	*Low*	Bottom quartile
			Medium	Middle quartiles
			High	Top quartile
	Corporate penalties	Penalties for crises paid to US agencies	*Low*	Bottom quartile
			Medium	Middle quartiles
			High	Top quartile
	Settlements	Penalties for crises paid to US agencies	*Low*	Bottom quartile
			Medium	Middle quartiles
			High	Top quartile
Enforcement orders	**Ordered responses**	Reformative actions imposed by regulators and agencies on the company	*Low*	Negligible compliance ≤ 25%
			Medium	Partial compliance 25-75%
			High	Substantive compliance ≥ 75%
	Signalled intentions	The company's stated discretionary reformative actions	*Low*	Negligible compliance ≤ 25%
			Medium	Partial compliance 25-75%

			High	Substantive compliance ≥ 75%
Combined public shaming, financial penalties and enforcement orders	**Reported responsibility**	Change in selected ESG disclosures	*Low*	Negligible compliance ≤ 25%
			Medium	Partial compliance 25-75%
			High	Substantive compliance ≥ 75%

4.4. Operationalising the analytic framework

This research focuses on CEO personal accountability as the most explanatory mediating variable (M) in the casual logic X → M → Y. To operationalise the analytic framework (Fig 4.1., page 80) a sample of corporate crises (X), each of which has resulted in significant public harm and has a relatively high degree of saliency with the public, will need to be selected. A pre-requisite for sample selection is that the CEO has been held to public account by the regulatory authorities and the proceedings are in the public domain. A second pre-requisite is that the crisis company's shares are traded on public stock markets in jurisdictions where the regulators require annual filings to be made. For example, P1 requires analysis of changes to e.g., legal status, sales revenues, operating profit, total shareholder return and compensation. Finally, the start and end points of each crisis will need to be defined to facilitate analysis of change pre- and post-crisis.

The framework to analyse the mechanisms of CEO personal accountability (Table 4.5.) is deployed as a component of the analytic framework (Fig 4.1.). Each mechanism has direct and indirect effects which can be manifest at three levels: low, medium and high. The framework to analyse CEO personal accountability (M) is deployed in combination with observed changes in corporate responsibility (Y) pre- and post-crisis. Corporate responsibility may be unchanged, compliant, or systemic. The potential causal link between CEO accountability and the impact on compliant and /or systemic responsibility are established in the development of the four propositions tested. To further explain potential causality, each proposition is now described as a condition that is necessary and/or sufficient. The deployment of the framework to examine (M) in combination with observed change (Y) facilitates the breadth and depth of analysis required to empirically examine the four propositions advanced in this thesis:

P1. Tougher public shaming of CEOs incentivises companies to high systemic responsibility.

P2. Larger financial penalties incentivise companies to high compliant responsibility.

P3. More encompassing enforcement orders incentivise companies to high compliant responsibility.

P4. Combining tougher public shaming, larger financial penalties and more enforcement orders incentivises companies to high compliant and systemic responsibility.

The next chapter – Chapter 5 – operationalises this analytic framework.

5. Data and Methods

This research asks, '*To what extent does holding CEOs to personally account for crises effect corporate responsibility?'* The question is a multi-layered conceptualisation so that "epistemological mixing" can be built into the data collection and analysis (Creamer, 2018, p.927). The question is designed to include 'crises' as the situational context for the study and the independent variable (X). Asking 'to what extent,' implicitly requires mixed data to identify and explain variation and examine causality between crises and the dependent variable – corporate responsibility (Y). 'Holding CEOs to personally account' is theorised as the most explanatory mediating variable (M) to infer relationships in the causal logic X→M→Y. Multi-national corporations (again, MNCs) traded on public stock markets are the unit of analysis. 'Effects on corporate responsibility' over a five-year timeframe ex-ante, in-crisis and ex-post is the unit of observation. Changes in responsibility are operationalised using the analytic framework in a mixed methods approach.

The study takes a positivist approach and deploys mixed grounded theory, which merges grounded theory with mixed methods at specific moments i.e., ex-ante, during and ex-post corporate crises, to examine the effects of crises on corporate responsibility in a five-year timeframe (e.g., Charmaz, 2014). Theoretically, mixed methods facilitate: a combination of the explanatory narrative power of qualitative data with the descriptive clarity of quantitative, numerical data; the benefits of subjective and objective analysis to deepen understanding; and an evidentiary basis to establish confidence that the findings can be generalised (from the specific cases and contexts) to a broader population of cases (e.g., Charmaz and Bryant, 2016; Gerring, 2013). The remainder of this chapter sets out the reasons why a case study approach is deployed (section 1); the selection of case studies (section 2); data selection (section 3); the procedure for data analysis (section 4), before concluding.

5.1. Why case studies?

A research strategy based on (small-N) case studies is selected over a (large-N) cross-case analysis for four reasons. Firstly, the research question calls for an examination of the effects of crises on corporate responsibility. The requirement is to build a generalisable theoretical explanation of any causal relationship through an inductive analysis and interpretation of data that exists beyond the particular case or cases (Beach and Pedersen, 2013). The selection of a case study approach is consistent with the idea that theory is 'emergent' because it is latent within an individual case and/or across a small number of cases that are

closely related to each other (Eisenhardt and Graebner, 2007, p.25). Such inductive reasoning favours a case study approach compared to deductive testing of theory which typically favours large-N statistical analysis. Secondly, the internal validity of individual cases is preferred to a large number of cases with inherently more external variables. Theory is built through analysis of data and relationships between variables within case and across-cases. Inferences drawn from a particular case, or a small number of closely related cases, give a higher degree of confidence that the effects of crises on corporate responsibility are not influenced by external variables. The heterogeneity of crises, companies and CEOs, industries and business practices are best traded-off against a particular case or a small number of cases to reduce the number of variables the study needs to control for. The less assumptions we need to make the stronger the inference we can draw (Gerring, 2013).

Thirdly, a case-based strategy allows for ‘thick description’ which is better positioned (than a large-N strategy) to explain the degree and variation in the practice of corporate responsibility that the research question implies (Eisenhardt and Graebner, 2007). The analytical framework developed for this study (Chapter 4) frames crises as disasters that occur in complex adaptive systems and characterises corporate responsibility as an ultra-wicked problem. Thick description and analysis of individual crises, CEOs’ decisional behaviour, company response and public perceptions of that response is especially sensitive to navigating the specific contexts in which crises occur and companies operate (Gerring, 2013). Lastly, a case study approach provides a richer and more diverse evidence-base than a large-N study of corporate crises could accommodate (were it to deploy a reasonable number of assumptions). Each case study provides a concentration of localised data such as regulatory filings and records that can be validated for accuracy, precisely analysed, compared with other cases, and interpreted to develop concepts, categories, themes and (ultimately) theory (Charmaz and Bryant, 2016).

In summary, a small-N case study approach is judged to be better suited (than a large-N approach) to examine ‘extreme cases’ (Eisenhardt, 1989). One of the characteristics of crises is that they escalate in unusual ways and faster than normal events, moving beyond routine systems and resilience plans (Coombs, 2007). By their very nature crises are ‘extreme cases.’ The extremeness of a crisis typically means that such cases are in the public domain, making any changes in CEO and/or corporate behaviour more likely and likely more transparent. A case study approach increases the possibility of generating insights that might remain unseen in unexceptional cases (Eisenhardt, Graebner and Sonenshein, 2016). Scholars know about

crises and about corporate responsibility. This thesis deploys a case study approach to build theory about the mechanisms between these two variables and, in the process, contribute to both sets of literature.

5.2. Case study selection

The next strategic decision is to decide on case selection. To assist us, Levy (2002) introduces Frank Sinatra (1980) to John Mill (1882) one hundred years after Mill's *method of difference* and *method of agreement*[46]appeared in his System of Logic. Mill's *method of difference* is based on cases that have different values on the dependent variable (corporate responsibility) and similar values on the independent variable (crises), except for a variation on what is theoretically the most explanatory variable to explain X→Y. His *method of agreement* is the inverse of this, with cases selected to be similar on the dependent variable and different on all but the most explanatory independent variable (e.g., as in this study holding CEOs to account personally) (Mill, 1882). Mill's methods anticipate what is referred to as crucial cases. Crucial cases are judged to be more important than others based on reasonable expectations inferred from prior scholarship. In line with Bayesian probability, Mill's *method of difference* produces cases often referred to as 'most likely' (and his *method of agreement* to produce cases 'least likely') to confirm theoretical expectations (George and Bennett, 2005). The city of New York and what Levy (2002) calls the "Sinatra inference" summarise the inferential logic of most likely case selection, "If I can make it there, I can make it anywhere"; and least likely case selection, "If I cannot make it there, I cannot make it anywhere" (*ibid*, p.442). Ideally, case selection exercises the best available "leverage over the theory" (*ibid*, p.14). The lack of evidence in support of a theory from a most likely case selection confounds our expectations, while strong support from a least likely selection builds confidence that the theory is robust and can be generalised to a broader population of similar cases. This study operationalises most likely cases occurring between 2010-2019.

The period 2010-2019 represents a period between the systemic crises of the financial crash (2007-2009) and the COVID-19 pandemic of 2020 when it is most likely that crises (X) will have a causal effect on corporate responsibility (Y). By 2010, the worst effects of the financial crisis on individual companies had passed and the stock market entered one of the longest running bull markets in its history. This bullish run saw the S&P 500 Index[47] rise[48]

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[46] Mill also introduced a combined method of concomitant variation in his System of Logic.
[47] The Standard & Poor's (S&P) 500 Index is an index of 500 publicly traded companies in the United States.
[48] As of December 31st, in each year

from 1,127.64 points in 2010 to 3,230.78 points by 2019. The FTSE Index[49] rose from 5,862.94 points (2010) to 7,542.34 points (2019) despite the systemic shock of Brexit (which did not begin to come into effect until 2021). This decade-long relative prosperity for shareholders means that companies involved in a crisis, who wished to respond by becoming more responsible, most likely had the financial resources and access to capital required to do so.

The period 2010-2019 also saw the explosion of social media (Wu, 2017). Between 2010 and 2018, Facebook grew from 518 million users in 2010 to 2.26 billion users and You Tube from 481 million to 1.90 billion users over the same period. Instagram, WhatsApp and We Chat each had over 1.0 billion users in 2018. It is estimated that by 2020 3.5 billion of the world's population will be online with one in three people using social media platforms (Ortiz-Ospina, 2019). General news stories about the impact of companies' activities on the environment and on society are pervasive. It has been estimated that in 2018, more than 250,000 unique English language articles focused on environmental, social, and governance (ESG) issues concerning 8,000 companies appeared in news media (Serafeim, 2020). A "stubborn" view persists in corporate literature that irresponsible behaviour is associated with penalties such as significant declines in market valuation, increases in consumer activism against the company, and higher staff turnover and that such penalties incentivise responsibility (Jackson, *et al.,* 2014, p.156; Herzig and Moon, 2012). By operationalising an existing dataset to form a novel dataset of crises occurring between 2010 and 2019, this study tests whether the "stubbornness" in the literature is justified.

This investigation operationalises an existing dataset – 'The Biggest Corporate Scandals of the Past Decade'. This dataset is a list of what the executive editor[50] for 24/7 Wall St. (together with one staff journalist) considered to be crises that "involved catastrophic damage, deaths, or otherwise had a large impact on the general public" (Comen and Frohlich, 2020). Sixteen diverse types of corporate scandal including fraud, whistleblowing and sexual harassment are featured; thirty-three companies and organisations are cited, and, in some instances, multiple entities are involved in a single crisis. It is a dataset of crucial cases, by definition, precluding business-as-usual. 24/7 Wall St., is a financial news and opinion company that delivers its content via its website. The company's articles are republished in

[49] The FTSE 100 is an index composed of the 100 largest companies by market capitalisation listed on the London Stock Exchange.
[50] Thomas Frohlich's work has been cited or featured in many major online and print publications, including MSN, USA Today, The New York Times, The Guardian, Washington Post, Forbes, Time Magazine, Business Insider, Los Angeles Times, Boston Globe, and Chicago Tribune.

business broadcasters' news sites and portals including MSN MarketWatch, and by many of the largest US mainstream news outlets such as USAToday and AOL. A selection of most likely cases is drawn from this existing dataset to form a novel (small-N) dataset of case studies.

The methodology employs two filters to identify the final selection of most likely cases. The filters are deployed consecutively to screen the sixteen scandals and thirty-three organisations featured in the existing dataset to five most likely cases. The first filter screens for a minimum of 24-months fiscal year and ESG data ex-post crisis to ensure the effect of crises on corporate responsibility can be assessed and monitored for persistency over time. The second filter screens for cases in which the CEO was publicly held to account personally for the crisis and testified before Congress. Table 5.1. details the five most likely cases selected to form a novel dataset.

Table 5.1. A novel dataset of five most likely cases

Company	**Crisis** (Congressional description)	Crisis timeline
BP	Deepwater Horizon Explosion & Oil Spill	20 Apr 2010 - 19 Sep 2010
VW	Emissions Cheating Allegations	03 Sep 2015 - 28 Jun 2016
Wells Fargo	Opening of Unauthorised Customer Accounts	08 Sep 2016 - 20 Apr 2018
Equifax	Data Breach	07 Sep 2017 - 25 Jun 2018
Facebook	Transparency and Use of Consumer Data	17 Mar 2018 - 25 Jul 2019

Column 1 identifies the company (the unit of analysis) in each case. All companies are MNCs (again, multi-national corporations) traded on public stock markets. All are industry-leaders. Such MNCs' financial and non-financial disclosures are readily available on international, national, and business media platforms in multiple countries around the world. MNCs are more in the public domain than smaller and privately held firms and subject to greater stakeholder scrutiny. Typically, MNCs influence the policy agenda, the overall business culture, and the prevailing view of best practice (including corporate responsibility) wherever they operate (Serafeim, 2020). Selected cases have three critical variations that avoid selection bias. Firstly, there is a cultural variation which can lead to differences in the performance of corporate responsibility based on location of company headquarters and stock exchange of primary listing (e.g., Favotto and Kollman, 2020). Three of the case companies are headquartered in the U.S., one in Britain and one in Germany. Secondly, there is a sectoral variation which the literature expects to moderate the performance of corporate responsibility (e.g., Dyck, *et al*., 2018). BP and VW are classed as 'industrial' companies (in an agriculture,

industry, services typology) and Wells Fargo, Equifax and Facebook are classed as 'services'. Thirdly, there is variation in the nature and timeframe of irresponsible behaviour that precipitates each crisis. BP is an industrial crisis that (literally) exploded instantaneously. VW is a crisis resulting from fraud perpetrated over a six-year period. Wells Fargo is a crisis of mis-selling over five years. Equifax's cybersecurity crisis unfolded over a five-day period between the data breach and public announcement of it. Finally, Facebook's crisis is borne from a lack of transparent surrounding data use over four years. This variation in the nature and timeframe of each crisis (X) potentially explains variation in different levels of corporate responsibility (Y). Selected cases have sufficient similarities to examine the research question. The variations do not affect the analysis and are considered an acceptable trade-off between the ability to observe causal relationships and the variables inherent in case selection.

Column 2 details each crisis according to the description used by US Congress' hearings, executive orders and reports. In April 2010, British Petroleum's (BP) Deepwater Horizon oil rig exploded killing eleven workers and injuring seventeen others. An estimated four million barrels of oil leaked from the Macondo well into the Gulf of Mexico over the next three months[51]. Volkswagen's (VW) emissions crisis became public knowledge in 2015 when the company revealed to the Environmental Protection Agency and California Air Resources Board its use of software devised to defeat emissions standards of nitrogen oxides (NO_x) in 2.0 litre diesel vehicles from 2009 to 2015[52]. The following year (2016), Wells Fargo admitted that over a five-year period, employees had systematically opened bank and credit card accounts without customer authorisation[53]. A year to the day, in the following September, Equifax announced a cybersecurity incident affecting half the U.S. population[54]. The improper transfer by Facebook of millions of users' data to Cambridge Analytica was reported by The Guardian, The New York Times, and Channel 4 on St Patrick's Day 2018[55].

The research question hypothesises the causal logic: crises (X) → publicly holding CEO to account personally (M) → corporate responsibility (Y) (Pearl and Mackenzie, 2019). Most likely cases are selected to control for variation in crises type and institutional context (X) and for variation on the mediating variable – publicly holding CEO to account personally (M). Each of the controls will be discussed in turn. The cases selected are all classified as 'intentional

[51] (U.S. House of Representatives Committee on Natural Resources 112th Congress, First Session, 2011)
[52] (Committee on Energy and Commerce, House of Representatives 114th Congress, First Session, 2015)
[53] (Congressional Research Service, 2019)
[54] (U.S. House of Representatives Committee on Oversight and Government Reform 115th Congress, 2018)
[55] (House of Representatives, Committee on Energy and Commerce, 2018)

crises' in a typology of crises developed by Coombs (2007), enabling us to control for the variable nature of crises (X). The typology is part of his Situational Crisis Communication Theory (SCCT) which categorises crises in one of three classifications: *victim crises*, *accidental crises* and *intentional crises*. The selected cases thus minimise variation on the independent variable (X).

Stakeholder perceptions of the effects of crises on corporate responsibility reflect the changing expectations of individual companies, industries, nations, and cultures (e.g., Kang and Moon, 2012; Matten and Moon, 2008). This study controls for such institutional variation by reducing contextual noise. Each crisis broke into the public sphere and caused significant public harm in the US. The Deepwater Horizon/Macondo oil spill impacted the environment, critical habitats, and public health, and caused economic losses of tens of billions of dollars throughout the US' Gulf Coast region and nationally[56]. VW's 'defeat devices' (as they became known) were installed in over 500,000 US registered vehicles. Equipped with these defeat devices cars emitted more than forty times the NO_x emissions compared to normal driving conditions[57]. The devices were discovered in a report by West Virginia University's Center for Alternative Fuels[58]. The impact of Wells Fargo's opening of two million unauthorised accounts impacted the bank's clients on the West Coast and throughout the US[59]. Equifax's data breach affected 56 percent of American adults. The attackers were able to steal approximately 147 million names and dates of birth, 145.5 million SSNs (Social Security Numbers), 99 million physical addresses, 20.3 million telephone numbers and 17.6 million email addresses[60]. Without their users' knowledge, Facebook shared the data of 87 million American users with a company called Strategic Communications Laboratories who worked with Cambridge Analytica, a British data analysis firm that worked on President Trump's 2016 election campaign[61]. It is recognised that each of these scandals also had some impact outside the US. For example, at the time of Deepwater Horizon the UK's annual pension fund income (7% of which came from BP alone) suffered as the price of BP shares fell during the crisis (Lawrence and Davies, 2019). VW recalled over 11 million cars worldwide. Some international clients of Wells Fargo and Equifax and some users of Facebook in countries outside the US were affected

[56] (U.S. House of Representatives Committee on Natural Resources 112th Congress, First Session, 2011).
[57] (Committee on Energy and Commerce, House of Representatives 114th Congress, First Session, 2015).
[58] (Center for Alternative Fuels, Engines and Emissions West Virginia University, 2014).
[59] (Congressional Research Service, 2019).
[60] (U.S. House of Representatives Committee on Oversight and Government Reform 115th Congress, 2018).
[61] (U.S. House of Representatives, Committee on Energy and Commerce, 2018).

by the respective crises. However, the US is accepted to be the epicentre of the impact of each crisis enabling a measure of control over institutional variation due to contextual differences.

The case selection also offers some degree of control over the mediating variable (M) in the hypothesised causal chain: crises (X) → publicly holding CEO to account personally (M) → corporate responsibility (Y). Guglielmo, Monroe and Malle (2009) echo Coombs' (2007) SCCT (again, Situational Crisis Communication Theory) in their "step model of blame" (p. 450). The model is based on moral judgements, "directed at agents who are presumed to be capable of following socially shared norms of conduct" (Malle, Guglielmo and Monroe, 2012, p. 314). The model of blame identifies the process of detecting what happened, assessing how a company caused the crisis and deciding if its behaviour was intentionally irresponsible. Blame is then assigned based on how the company justifies its actions leading up to and during the crisis. If the company is perceived to be justified in its actions, minimal blame is assigned. If its justification is perceived to be weak then maximal blame is assigned (Malle, Guglielmo and Monroe, 2012). To the extent that the public perceive the company's actions to be self-serving, they make more severe judgements (Woolfolk, Doris and Darley, 2006).

In the cases selected, regulators publicly held the CEOs to account personally for the respective crises and subsequent environmental and public harm. In total, penalties in excess of $50 billion were levied against the five companies. In three cases, the fines to remediate public harm were the largest in history at the time. Additionally, as part of the settlements, all companies consented to enforcement orders designed to reduce the risk of recurrence in the public interest. BP is estimated to have paid in excess of $65 billion for their part in Deepwater Horizon (Vaughan, 2018). In 2012 the US Justice Department (USJD) fined BP $4.5 billion[62]. In a further settlement with the USJD in 2016, BP paid $20.8 billion in a series of agreements in part to restore and conserve habitat, water quality, and coastal and marine resources.[63,64] Separately, compensation for over 390,000 claims to cover the public's economic losses under the Court Supervised Settlement Program were all but completed by 2018 at a final estimated cost of $40 billion. The fine imposed on BP in 2012 was the highest in history.

In VW's final settlement with the Federal Trade Commission, owners of over 500,000 vehicles were compensated through a $10.03 billion buy-back or lease termination programme.

[62] (US Department of Justice, 2012).
[63] (Deepwater Horizon oil spill settlements: Where the money went | National Oceanic and Atmospheric Administration, 2017).
[64] (US Department of Justice, 2016).

In addition, VW was fined $4.7 billion to mitigate the pollution from these cars and to invest in green vehicle technology[65]. At the time it was a record fine. In 2016, Wells Fargo consented to pay $185 million to settle a lawsuit filed by regulators and the city and county of Los Angeles[66]. By 2020, the company agreed to pay a $3 billion penalty in its settlement with the USJD. In a vivid illustration of Woolfolk, Doris and Darley's (2006) finding that public judgement is more severe in the face of self-serving behaviour, US Attorney Andrew Murray noted,

> *"When a reputable institution like Wells Fargo caves to the pernicious forces of greed and puts its own interests ahead of those of the customers it claims to serve, my office will not sit idle."*[67]

Equifax agreed to pay a minimum of $575 million, and potentially up to $700 million, as part of its settlement with the Federal Trade Commission (FTC), the Consumer Financial Protection Bureau and 50 US States and Territories. The company also agreed that beginning in January 2020, Equifax would offer all its US consumers seven free credit reports each year for seven years[68]. In 2018, the FTC fined Facebook $5 billion and issued new, 20-year restrictions to improve its accountability for decisions concerning users' privacy (including for WhatsApp and Instagram users). Under the 'Facebook Privacy Compliance System' the FTC designed, "a multi-layered, incentive structure of accountability, transparency and oversight". Facebook must conduct a privacy review of every new product, modification of a product, service, or practice before it is implemented, and document its decisions concerning user privacy. The $5 billion fine was, "unprecedented in the history of the FTC", according to Joe Simons, FTC Chairman[69.]

In a further indication of public accountability, each CEO (again, Chief Executive Officer) has testified to Congress and accepted personal responsibility under oath. The literature review (Chapter 3) of corporate responsibility and crisis management scholarship underlines the need for an analysis of publicly holding CEOs to account personally as potentially the most explanatory mediating variable (M). The consensus is that corporate responsibility (Chapter 2) is discretionary activity undertaken by the firm in excess of what is

[65] (Federal Trade Commission, 2016).
[66] (Congressional Research Service, 2019).
[67] (US Department of Justice, 2020).
[68] (Federal Trade Commission, 2019).
[69] (Federal Trade Commission, 2019a).

mandated by regulation (e.g., Matten and Moon, 2008). The role of the CEO is to act as a company's most senior executive manager, empowered to speak on behalf of the company and answerable in law to the Board of Directors and shareholders. It follows therefore, when confronted with a crisis, that the CEO's public statements surrounding the crisis and the company's response to it are potentially the most explanatory.

The literature on corporate responsibility (Chapter 3) examines the market-based and governance incentives for companies to become more responsible. Market-based expectations of corporate responsibility incentivise companies to become more responsible to focus on employee recruitment and motivation (e.g., Edmans, 2012; Fleming 2009); market share and sales revenues (e.g., Olson, *et al.,* 2016; Du, Bhattachary and Sen, 2010) and improve access to capital (e.g., Ioannou and Serafeim, 2014). These expectations are found to be necessary but insufficient variables in explaining the occurrence of corporate responsibility and studies point to the pivotal role of company leadership (e.g., Ioannou and Serafeim, 2019; 2014). Growing expectations of meta-governance networks (e.g., the Paris Climate Accord) are seeking to manage the impacts of MNCs (and business generally) on society and the environment (Albareda and Waddock, 2016). Again, scholars find that variables centred on governance can provide necessary incentives for corporate responsibility but are insufficient to explain the effect of crises as the causal mechanism. With both market- and governance-based incentives providing only partial explanations, the selection of most likely cases contributes to the literature by further examining the role of leadership, specifically publicly holding CEOs to account personally, as the most explanatory variable (M) for the occurrence of corporate responsibility (Y) as a result of crises (X).

Table 5, Column 3 identifies the timeline for each crisis. Crises timelines, 'when did it begin and when did it end?' are perennial questions much contested by scholars. This research uses Congressional records to determine a start and end date in each case. The defined dates mark clear milestones in the progress of each crisis and have an internal validity. On 20th April 2010, BP's Deepwater Horizon oil rig exploded. On 19th September 2010, 152 days after the explosion the Federal Government declared the Macondo well officially dead[70]. VW's emissions crisis became known on 3rd September 2015 when the company felt compelled to

[70] (U.S. House of Representatives Committee on Natural Resources 112th Congress, First Session, 2011).

admit to the use of defeat devices[71]. Ten months later, the company settled with the FTC on 28th June 2016[72].

On 8th September 2016, Wells Fargo admitted that employees had systematically opened bank, credit card and other accounts without customer authorisation[73]. Over the following 20-months, between 2016 and 20th April 2018, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Federal Reserve, entered five separate Consent Orders with Wells Fargo[74]. Equifax announced a cybersecurity incident affecting half the US population on September 7 2017[75]. On June 25, 2018 (ten months after the breach) the company agreed to take several actions under a Consent Order entered with regulatory agencies from eight states[76]. On 17 March 2018, The New York Times (and The Guardian, and Channel 4 in the UK) broke the story of how Facebook had shared millions of users' data with Cambridge Analytica[77]. The scandal ran for 16-months until 25th July 2019, when the FTC fined Facebook $5 billion and issued new restrictions to improve its accountability for decisions concerning users' privacy[78]. These dates also ensure sufficient data to assess and monitor the effects of crises (X) on corporate responsibility (Y) over a five-year timeframe ex-ante, in-crisis and ex-post each crisis. As such they represent an acceptable trade-off between a detailed examination of each crisis for the purpose of assessing X→Y and an examination of the complete impact of each crisis. A global view i.e., a determination of the complete impacts of a crisis is impractical because crisis aftershocks continue to play out. For example, Facebook users' privacy is still under investigation. Or, for example, Berenshtein, *et al.,* (2020) were able to use new in-situ observations combined with advances in oil spill transport modelling to extend the area in the Gulf of Mexico originally estimated by the satellite footprint to have been damaged by the BP oil spill.

In conclusion, this research investigates publicly holding CEOs to account personally for crises as the most explanatory mediating variable (M) between X→M→Y. In line with organisation theory, the combination of societal, regulatory and shareholder pressures means that corporate responsibility "has emerged as an inescapable priority for business leaders in

[71] (Committee on Energy and Commerce, House of Representatives 114th Congress, First Session, 2015).
[72] (Federal Trade Commission, 2016).
[73] (Congressional Research Service, 2019).
[74] (Office of the Comptroller of the Currency, 2018).
[75] (U.S. House of Representatives Committee on Oversight and Government Reform 115th Congress, 2018).
[76] (U.S. House of Representatives Committee on Oversight and Government Reform 115th Congress, 2018).
[77] (House of Representatives, Committee on Energy and Commerce, 2018).
[78] (Federal Trade Commission, 2019a).

every country" (Porter and Kramer, 2006, p.78). Each selected case places the CEO in a perfect storm of stakeholder pressure. Galvanised by the public harm caused, regulators exert *institutional* pressure by holding CEOs to account personally for the crisis, giving voice to *normative* pressures of how society expects companies to operate. Meanwhile shareholders exert *coercive* pressure owing to the sudden financial loss they suffer in a crisis (Ioannou and Serafeim, 2019;). The selection of most likely cases controls for several variables: the companies are all industry leading MNCs; every crisis is intentional; the impact of each is overwhelmingly in the US; all companies have been held to public account through significant penalties and enforcement actions; the CEO has accepted personal responsibility for the crisis and for 'putting it right' under oath. Sinatra's assertion can reasonably be expected to support the theoretical effect of crisis on corporate responsibility and the theoretical expectations (contained in P1-P4).

5.3. Data selection

The diverse nature of the mechanisms and effects of the analytic framework (detailed in Chapter 4) call for mixed data. For example, public shaming requires financial data from a company's Securities and Exchange Commission (SEC) filings for the effects of 'sales revenue' and 'operating profit,' daily prices from stock exchange data for 'shareholder value' and public records for details of 'legal accountability.' Table 5.2. details the mechanisms of public accountability and the sources of the data required to examine the direct and indirect effects of publicly holding CEOs to personally account for a crisis. The mechanisms are listed (column 1) and their corresponding effects are allocated to data sources (columns 2-5). Corporate communications provide data on the effect of 'employment status' and 'signalled intentions'. SEC filings yield data on eight effects of the public shaming and financial penalties mechanisms. Stock market data is required for equity prices to calculate 'shareholder value' and 'total shareholder return.' As can be seen from column 5, Congressional records are required to yield data for 'allocation of responsibility' and 'legal accountability' as effects of the public shaming mechanism; for 'corporate penalties' and 'settlements' as effects of the financial penalties mechanism; and for 'ordered responses' as an effect of the enforcement orders mechanism.

Table 5.2. The analytic framework and data sources

Mechanisms	Effects of public accountability and data sources			
	Corporate communications	*SEC Filings*	*Stock Market data*	*Congressional records*
Public Shaming	• Employment status	• Legal status • Compensation • Compensation recovery • Board oversight • Sales revenue • Operating profit • Shareholder turnover	• Shareholder value • Total shareholder return	• Allocation of responsibility • Legal accountability
Financial penalties		• Corporate fines		• Corporate penalties • Settlements
Enforcement orders	• Signalled intentions			• Ordered responses

The research deploys the mixed data identified: corporate communications, SEC filings, stock market data and Congressional records. The final source of data required to assess corporate responsibility is ESG disclosures over a five-year timeframe ex-ante, in-crisis and ex-post. Each dataset is discussed in turn.

Textual analysis of corporate communications examines the antecedent conditions ex-ante and companies' signalled response in-crisis. Three types of corporate communication are examined: Annual Reports, Sustainability Reports, and press releases. Annual Reports have been selected because there is a legal obligation for case companies to publish an Annual Report and Accounts irrespective of the locus of their headquarters and/or primary stock market listing. BP is headquartered in the UK with a primary listing on the London Stock Exchange (LSE); the company's reporting is regulated in sections 441-443 of Companies Act 2006. VW, headquartered in Germany with a primary listing on the Frankfurt Stock Exchange (Börse Frankfurt), is regulated under European Commission (EC) Regulation No. 1606/2002 and the German Commercial Code (Handelsgesetzbuch). The remaining three case companies are US headquartered and listed on US stock exchanges: Wells Fargo and Equifax (New York Stock Exchange (NYSE)) and Facebook (National Association of Securities Dealers Automated Quotations (Nasdaq)). All three are regulated under the US Securities Exchange Act of 1934.

In the three jurisdictions, company directors have a legal obligation – a fiduciary duty – to act in the interest of the shareholders of the company. This duty casts company directors as the fiduciary or 'agent' and the shareholder as 'principal.' The Annual Report allows agents to account for the company's financial performance in the preceding fiscal year to their

principals (i.e., the shareholders). Regulators have extended the role of the Annual Report as governmental and societal expectations of companies to act responsibly have increased. The overall thrust is to encourage companies to mix financial and non-financial data in Annual Reports to provide shareholders with a more rounded explanation of how performance has been achieved, to encourage greater corporate responsibility.

Sustainability Reports will complement the use of Annual Reports; the Annual Report is focused primarily on financial performance and the Sustainability Report is focused on non-financial performance in areas that pertain to corporate responsibility such as environmental or social impact (Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019). As its name suggests SCCT (again, stakeholder crisis communication theory) is centred on the role of communications in helping a company manage a crisis. A company's press releases during and after a crisis provide rich data on how the company frames the crisis; justifies its behaviours; prioritises its responsibilities to stakeholders and the environment; and responds to it (Coombs, 2020; 2007).

To examine the mediating effect of publicly holding each CEO to account personally for the crisis, CEO statements in press releases and Annual[79] and Sustainability reports will be analysed. The consensus is that corporate leadership is fundamental to greater corporate responsibility (e.g., Mayer, 2018); a situation is only accepted as a crisis when it is acknowledged by the relevant authority (i.e., the CEO) (Mitroff, *et al.,* 1996); the CEO (as the most senior executive manager) often becomes the single target of public interest and condemnation during a crisis (Daudigeos, Roulet and Valiorgue, 2018) and the language used by the CEOs may reveal whether their intention is that the company becomes more responsible in response to a crisis (Crilly, Hansen and Zollo, 2016).

Securities and Exchange Commission (SEC) filings are analysed both textually and statistically to examine antecedent conditions ex-ante and companies' signalled responses in-crisis. SEC (10-K)[80] filings are deployed to complete the dataset of mandatory disclosures for each fiscal year. The SEC requires all companies listed on US stock exchanges or that publicly offer their securities (corporate bonds, debt, and commercial paper) in the US to file reports

[79] For Wells Fargo, Equifax and Facebook (US case companies) the equivalent section to the CEO Report is, 'Management's Discussion and Analysis of Financial Condition and Results of Operations.'
[80] Companies are mandated to file with the Securities and Exchange Commission (SEC) an Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for each fiscal year.

annually[81]. This means that all five case companies must file reports with the SEC. Annual reports are mandated to include certain information but there is considerable variation in the treatment and presentation of disclosures between companies. There is also variation in the degree of disclosure. SEC 10-K filings are mandated to be more detailed than Annual Reports (Grewal, Hauptmann and Serafeim, 2020). For example, Equifax's Annual Reports of 2015 and 2016 under the then CEO, Richard Smith, contained cherry-picked 'highlights' of their SEC filings. In 2017, under interim CEO, Paulino R. Barros Jr., their annual report was a reprint of their SEC filing for that year. Analysing both SEC filings and Annual Reports ensures a global view of a company's operational and financial performance. The SEC filings also contain proxy statements. A proxy statement must be filed with the SEC, as Form DEF 14A or definitive proxy statement, by publicly traded companies in advance of shareholder meetings. The statement discloses matters material to the company's operations that require a shareholders' vote and final approval of the Board of Directors.

Stock market data is statistically analysed to measure the market value of companies in different timeframes. Market value is measured by market capitalisation which is calculated by multiplying the total number of a company's outstanding shares by the current market price of a single share. To frame a given period, stock prices are taken at the Friday close of the trading week prior to the start of the selected period; and prices are as at the Friday close of the trading week after the end of the period (which might be in the same week). As an example, the sudden loss of value of all case companies from the start of each crisis to the end of the CEO testifying before Congress (discussed in Chapter 4), is calculated by taking the closing prices on the Friday before the start of the crisis and the Friday close of the week immediately after the date the CEO testified to Congress. A separate measure called 'total shareholder return' is also calculated for each CEO tenure. Total shareholder return incorporates the price change and any relevant dividends for the specified period. Compounded daily return (with dividend reinvested) for the specified period is used to calculate total shareholder return. The most recently completed trading day is set as the default period. The dividend type used is the most widely reported dividend for a market and it is either gross or net. All stock prices are gathered from the Yahoo Finance[82] database.

[81] This means that BP, headquartered in the UK with a primary stock market listing on the LSE, and VW headquartered in Germany with a primary listing on Börse Frankfurt must also file with the SEC, as well as their 'home' regulators.
[82] Yahoo Finance is owned by Verizon Media. It provides financial news, data and commentary, including stock quotes, press releases, financial reports, and original content.

Textual analysis of Congressional records identifies the responses Congress orders companies to take in- and post-crisis to reduce the risk of irresponsible behaviour recurring. Several types of Congressional records are operationalised in this research: the transcripts of Congressional hearings, CEOs' prepared testimony, Consent Orders, media releases and Congressional reports. The novel selection of most likely cases was screened from the existing dataset using two filters – the second of which is that the CEO was publicly held to account personally for the crisis and testified before Congress. Congressional hearings allow the CEO to submit a prepared testimony in advance. The dataset also includes Consent Orders and associated media releases. These records detail the penalties levied and enforcement actions imposed by Congress through US Government agencies and the Courts. Such enforcement actions are intended to reduce the risk of recurrence. The company agrees (and is legally obliged) to comply and undertake the actions specified. Finally, relevant reports to the House of Representatives or the Senate are also included in the dataset. Examples of such Congressional reports include The Report to the President by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (2011) or the Majority Staff Report on the Equifax Data Breach to the US House of Representatives Committee on Oversight and Government Reform (2018).

ESG disclosures are statistically analysed to benchmark corporate responsibility ex-ante and assess changes ex-post. Following for example Bannier, *et al.,* (2019), Dyck, *et al.,* (2019) and Cheng, Ioannou and Serafeim (2013) in their study of firms' access to finance, this research tests for corporate responsibility using Refinitiv Eikon[83] ESG measures. The Refinitiv Eikon database holds ESG data on over 9,000 companies and is regarded as one of the world's best available material datasets which facilitates comparison across companies, industries, and countries. The database covers more than 400 ESG measures, of which 178 are described as 'critical.' All 178 critical measures are material drivers and outcomes of corporate responsibility. ESG measures are collected by Refinitiv from company public disclosures made in corporate communications such as Annual Reports; CSR, Sustainability and ESG Reports; websites; company press releases; and from global media sources. Data is checked and continuously updated by 150 content research analysts based in five centres globally. Diverse data is standardised to allow comparison across all 9,000 companies. Quality control processes include 400 built-in error checks at the data collection stage, 300 automated quality checks,

[83] Previously Thomson Reuters Eikon, which formally became part of London Stock Exchange Group in July 2019. The acquisition was completed in January 2021.

daily sample audits and regular system validation checks and management reviews (Refinitiv, 2020). The Refinitiv Eikon ESG measures are used in two ways: to assess changes in compliant, targeted responsibility, and to monitor changes in systemic, company-wide corporate responsibility.

Firstly, subsets of ESG measures of corporate responsibility (Y) are aligned with the company's targeted responses to assess changes in-crisis and ex-post. The company's response will either be discretionary and signalled in its corporate communications (*signalled intentions*) or mandated through Consent Orders where the enforcement actions imposed by Congress are also detailed and consented to by the company in the Courts (*ordered responses*). Signalled intentions and ordered responses are typically of two types: termed in this study 'specific' and 'general'. Intentions detail actions the company voluntarily takes; and orders detail specific instructions with which the company is required to comply. For example, Facebook was ordered to create an independent privacy committee within the company's Board of Directors with the sole focus of overseeing privacy. The Order stipulated the committee's purpose, membership, and operational scope amongst other things. The Order gave the company 120 days to comply from the entry of the Order (United States of America vs Facebook, Inc., [2019]). By comparison, general intentions and orders may involve many different practices and processes within the company. For example, Equifax were ordered (amongst many specific actions) to,

> *"Formalize emergency change standards and ensure they are expanded to provide for quick changes that are implemented in a well-controlled manner* (Equifax, Inc., Consent Order (2018), [2018], p.5)".

Both specific and general intentions and orders can be aligned with certain ESG measures to assess a company's change in behaviour over time. In the case of Facebook, aligned ESG measures would include 'committee meetings attendance average' and 'privacy controversies' i.e., the number of controversies published in the media linked to employee or customer privacy and integrity. In the Equifax example, which requires broad operational changes involving new process and staff training, increases in the ESG measures of 'average training hours' per employee and 'training costs per employee' would align with the ordered response. Company's signalled intentions and ordered responses include the establishment (or revision) of several policies and practices. The deployment of subsets of ESG measures aligned with a company's signalled intentions and ordered responses (henceforth referred to as *Compliant Responsibility*

Indicators (CRIs)), helps to assess whether the company has become more responsible because of the crisis.

CEO statements made in reports, speeches, memos, and press releases are hand coded in NVivo (a software programme). Commitments to actions and plans cited as part of the company's response to the crisis are coded at face value. Following pattern coding, individual codes are grouped to form a meta code, '[Company] Signalled intentions.' Consent Orders and Congressional Reports are hand coded in NVivo using the headings contained in the data. Also using pattern coding, individual codes are grouped to form a meta code, '[Company] Ordered responses.' For each company, the contents of both meta codes, 'signalled intentions' and 'ordered responses' are then copied to separate Excel spreadsheets where each code appears as a row. In each spreadsheet, the data is cleaned, and eight columns are added: the first categorises the intention or order as 'specific' (S) or 'general' (G) or not applicable (N/A); the next column intuitively maps candidate ESG measures from the Refinitiv Eikon database to relevant codes. In columns three to seven each candidate measure is assessed against five properties identified in the literature as being: *material*, *unique*, *described*, *verifiable* and if not *quantifiable* then *exclusive*. Each property is discussed individually below. The process of applying the CRI disclosure properties to the candidate measures is centred on a single foundational question and coding of the answer, "Is this measure [insert property]?" If the answer is "yes" code = 1, "no" = 0. Only those ESG candidate measures that displayed all five properties of disclosure and therefore scored five, qualify as CRIs. The final column in the Excel spreadsheets lists the qualifying CRIs.

All candidate measures were found to be *material*. Grewal, Riedl and Serafeim (2019) note that the SEC definition of materiality is focused on fiscal impact and their study examines the materiality of ESG measures on stock price informativeness which they measure through stock price synchronicity. In effect, they are assessing the materiality of ESG measures as first proposed by the United Nations report, 'Who Cares Wins' (United Nations, 2004). This report is credited with bringing the three strands of ESG (again, environmental, social and governance) together, and for the first time and establishing the link between these issues and company value. The property of materiality ensures that disclosures are inclusive of financial and/or non-financial impact. It is analytically critical that each CRI is *unique* i.e., a distinct and separate metric. This study characterises corporate responsibility as an ultra-wicked problem with multiple overlapping impacts (Chapter 2). The CRIs need to facilitate an assessment that

isolates individual impacts from the overall messiness of measuring corporate responsibility (Eisenhardt, Graebner and Sonenshein, 2016).

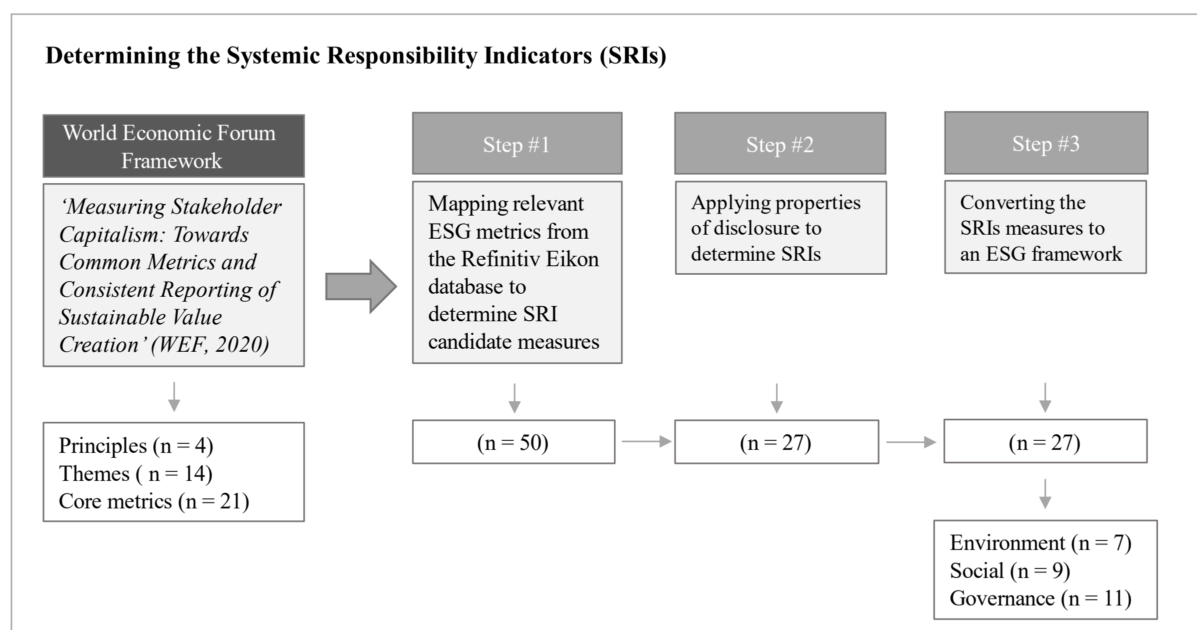
To be accessible by stakeholders, each CRI should each be *described* in line with what has become known as 'Burwell's law' after Sylvia M. Burwell, Director of the Executive Office of the President under President Obama. Her memo on 'Open Data Policy – Managing Information as an Asset,' states that measures should be robust with, "granular metadata that fully describes collection methods and characteristics" (Executive Office of the President Office of Management and Budget, 2013). The candidate measures were further assessed as being *verifiable.* The prevalence of greenwashing means that it is critical to any assessment of the effect of crises on corporate responsibility that metrics are based on evidence that can be verified by external parties or ESG auditors (e.g., Gatti, Seele and Rademacher, 2019).

Each CRI should also be *quantifiable*, reporting and describing company performance in absolute numerical terms. Quantifiable assessment of corporate responsibility aligns with the mixed methods deployed in this study. The role of the CRIs in this research is to complement qualitative content analysis of the corporate communications, Congressional records and SEC filings discussed earlier. The disclosure properties hold that if a disclosure cannot be quantified then it should be *exclusive* i.e., requiring a yes-no or true-false answer. The exclusiveness of the disclosure allows us to aggregate qualitative and quantitative data using Boolean analysis. The assessments of changes in the CRIs are made at 12- and 24-months ex-post crisis. Axiomatically, improvements in responsibility because of signalled intentions and ordered responses are targeted at issues perceived by regulators and/or companies involved to be at the root of the crisis.

The second way in which the Refinitiv Eikon measures will be used is to monitor changes in systemic corporate responsibility (Y) by deploying a novel set of Systemic Responsibility Indicators (SRIs). The SRIs are a unique panel of Refinitiv Eikon ESG measures selected to align with a framework developed under the auspices of the World Economic Forum (WEF)[84] called 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.' The development of the SRIs is depicted in Figure 5.1.

[84] The World Economic Forum is the International Organisation for Public-Private Cooperation.

Figure 5.1. Determining the Systemic Responsibility Indicators (SRIs)



The WEF framework consists of what it terms four principles (governance, planet, people, prosperity), fourteen themes (e.g., ethical behaviour, nature loss and innovation of better products and services) and twenty-one core metrics (e.g., total percentage of board members, employees and partners who have received training on the companies anti-corruption policies and procedures, the number and area (in hectares) of land used adjacent to protected areas and total R&D expenses). This framework has been promoted as "…the five leading voluntary framework and standard setters" working together on what could form, "…a single, coherent, global ESG reporting system" (World Economic Forum, 2020, pp.6-7). The framework has been received positively by commentators but is contested. The WEF framework is (at the time of writing) the most-high profile (Tett, *et al.,* 2021) and adopted initiative to standardise ESG reporting (Hillyer, 2021).

Step #1 (second from left in Fig. 5.1.) entails mapping measures from the Refinitiv Eikon database of over four hundred measures to the WEF framework. This mapping yields a list of fifty CRI candidate measures that intuitively aligned with the WEF core metrics. The mapping of the SRI candidate measures was tested in a workshop with investors[85] (anticipated by WEF as being a key user of the data). Step #2 (second from right in Fig. 5.1.) applies the same five disclosure properties deployed to select the CRIs to each candidate measure to

[85] The workshop was conducted (via MS Teams) on February 22, 2021, to test the mapping of Refinitiv Eikon measures to the WEF framework (Step 1, Fig. 1) with three founding partners of Redrice Ventures Limited (a private equity venture capital company): Tom March, Oksana Stowe and Jonathan Heilbron.

qualify and determine the SRIs. This step was conducted in a second workshop with colleagues at the University of Edinburgh[86]. Each SRI candidate measure was assessed against the disclosure properties. As with the selection of the CRIs, only those ESG candidate measures that displayed all five properties of disclosure and therefore scored five, qualify as SRIs. Of the fifty candidate measures: 50 were found to be *material*; 43 to be *unique;* 29 to be *described*; 49 as being *verifiable;* 40 as *quantifiable* and 10 as *exclusive*. Step #3 (on the extreme right of Fig. 5.1.) is to convert the qualifying CRIs to an ESG framework. This is a straightforward grouping of SRIs in one of three categories: environmental, social or governance. The SRIs are composed of seven environmental measures, nine social measures and eleven governance measures. The novel panel of 27 SRIs is summarised in Table 5.3. The measures are grouped into environmental, social or governance categories (column 1) and listed using their Refinitiv Eikon descriptor (column 2). The SRIs are all material, unique, described and verifiable. Twenty-two of the SRIs are quantifiable and five are exclusive. The SRIs are deployed to assess and monitor the effects of crises on systemic responsibility. The novel panel of SRI is detailed in full in Appendix II including the Refinitiv Eikon definition of each measure.

Table 5.3. Summary of Systemic Responsibility Indicators (SRIs)

ESG Measure (#)	Indicators (Refinitiv Eikon descriptor)
Environmental (7)	CO2 Equivalent Emissions Total
	CO2 Equivalent Indirect Emissions, Scope 3
	Resource Reduction Targets
	Waste Recycling Ratio
	Water Withdrawal Total
	Water Recycled
	Total environmental R&D/$million in revenue
Social (9)	Number of Employees from CSR reporting
	Net Employment Creation
	Salaries and Wages from CSR reporting
	Women Employees
	Women Managers
	Gender Pay Gap Percentage
	Salary Gap
	Average Training Hours
	Training Costs Per Employee

[86] The workshop to apply the CRI disclosure properties (Step 2, Fig 1) was conducted over three days in March 16-18, 2021). The CRI disclosure properties were discussed and reviewed (via MS Teams) on March 16 with Jamie Craze, Department of Economics, University of Edinburgh. The disclosure properties were then considered and applied by Jamie and colleagues over March 17 and 18, 2021 with corrections noted and posted to a shared file on OneDrive (a file sharing platform).

Governance (11)	Non-Executive Board Members
	Strictly Independent Board Members
	Gender Diversity, Percent
	Average Board Tenure
	Board Meeting Attendance Average
	Committee Meetings Attendance Average
	Policy Executive Compensation ESG Performance
	Chief Diversity Officer
	ESG Report Auditor Name
	Whistle-blower protection
	Integrated strategy in MD&A

In summary, the mixed data operationalises the analytic framework. It is collected from corporate communications, SEC (again, Securities and Exchange Commission) filings, stock market data, Congressional records and ESG disclosures. The data is deployed in a five-year (minimum) timeframe. A five-year timeframe allows for data collection and analysis two years before the crisis, a minimum of one year during the crisis and two years after. The choice of two years before and after the crisis is in line with a study by Dyck, *et al.,* (2019) titled, 'Do institutional investors drive corporate social responsibility?' The study found that across forty-one countries, institutional investors drove ESG performance in 3,277 MNCs between 2004-2013. Their study used a forerunner of the Refinitiv Eikon database called Thomson Reuters ASSET4 ESG database[87]. In one test of their overall finding, the study used BP's Deepwater Horizon crisis as a quasi-natural experiment to test the hypothesis that investment firms with a proportionally larger shareholding exert coercive pressure on CEOs and management to drive firms in the extractive industries to improve their ESG performance. Using a difference-in-differences approach two years pre- and two years post- the event, they tested the effect of the crisis on the environmental performance of firms in extractive industries. The results confirmed a spill over effect whereby firms operating in extractive industries with deeper institutional ownership became more responsible two years ex-post. Specifically, the study found a linear connection – the primarily environmental disaster of Deepwater Horizon drove improvements in environmental performance but not in social measures (governance measures were not tested). This study will in part extend this literature.

[87] Thomson Reuters Eikon, was rebranded as Refinitiv which formally became part of London Stock Exchange Group in July 2019. The acquisition was completed in January 2021. Eikon is the product name of the Refinitiv ESG database.

Data is collected two years pre- and post-crisis and during the duration of the crisis which is variable: BP's crisis is examined in a five-month timeframe; VW's in ten months; Wells Fargo's over a 20-month period; Equifax's also coincidentally over ten months and Facebook's in a 16-month timeframe. Data collected over a five-year time frame provides rich evidence to explore the causal relationships between crisis (X) and corporate responsibility (Y) and examine publicly holding CEOs to account personally, as the most explanatory mediating variable (M) in the causal logic X→M→Y.

5.4. Data analysis

Analysis of the mixed data is conducted within case and across cases. To facilitate analysis, a nomenclature to standardise different start dates and duration of crises is required. Table 5.4. details a standardised timeframe which enables within case analysis and across case comparison.

Table 5.4. Standardised timeframe for inter-case comparison

Standardised timeline for inter-case comparison								
Company	**Crisis timeline**	**Ex-ante**		**In-crisis**			**Ex-post**	
		(CP-2)	*(CP-1)*	*(CP0 $_0$)*	*(CP0 $_1$)*	*(CP0 $_2$)*	*(CP+1)*	*(CP+2)*
BP	20 Apr 2010 - 19 Sep 2010	2008	2009	2010	N/A	N/A	2011	2012
VW	03 Sep 2015 - 28 Jun 2016	2013	2014	2015	2016	N/A	2017	2018
Wells Fargo	08 Sep 2016 - 20 Apr 2018	2014	2015	2016	2017	2018	2019	2020
Equifax	07 Sep 2017 - 25 Jun 2018	2015	2016	2017	2018	N/A	2019	2020
Facebook	17 Mar 2018 - 25 Jul 2019	2016	2017	2018	2019	N/A	2020	2021

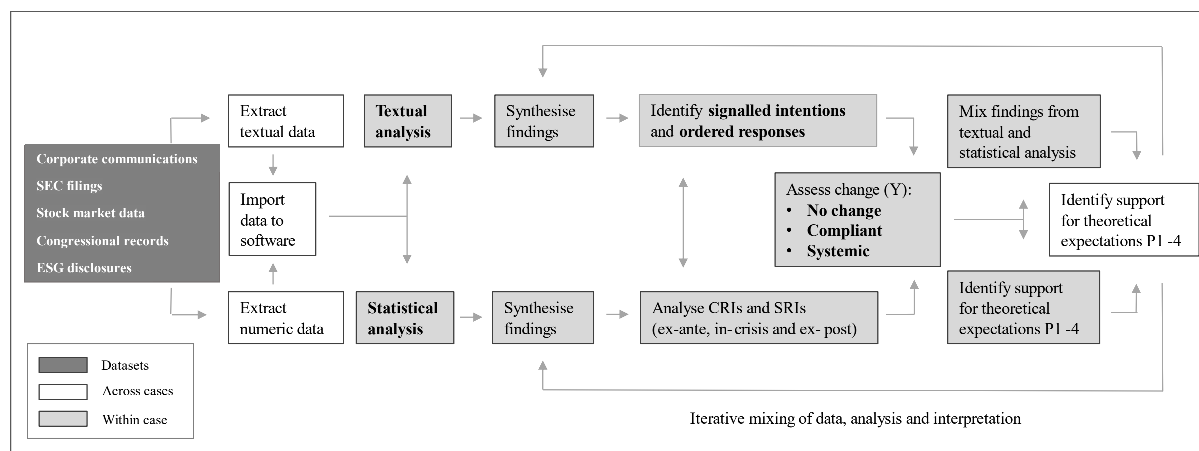
The first two columns set out the company and crisis timeline consistent with Table 5.1. (page 115). The following columns lay out the three phases of a crisis consistent with a framework developed by Bundy, *et al,* (2016). In reviewing literature from several fields including organisational theory, corporate communications theory and crisis management studies they propose a framework that integrates the internal perspective (i.e., how the firm prepares for, deals with and learns from crises internally) with the external perspective (i.e., how the firm manages external stakeholders' expectations). Starting left to right (row 2), the first phase *ex-ante* reflects the pre-crisis prevention phase of the framework, the *in-crisis* phase corresponds to the framework's crisis management phase and the *ex-post* phase corresponds to what the framework terms post-crisis outcomes. Each phase is broken down into 12-month segments which coincides with companies' reporting for fiscal years.

The third row from the top proposes a nomenclature based on crisis period (CP) and fiscal year. The designation (CP-2) signifies the period 24-months ex-ante (Table 5.4. columns 3), (CP-1) signifies 12-months ex-ante, and so on. The standardisation takes account of in-

crisis period by using the designation (CP0) with a subscript which recognises that crisis may span more than one fiscal year. Data from the year in which the crisis ends i.e., in-crisis period ($CP0_n$) becomes part of the ex-post evaluation. Such an evaluation captures the responses immediately signalled by the CEO and the company. Immediacy of response is a critical concept in crisis management theory which holds that companies should move to limit any reputational and financial harm by responding rapidly to stakeholder and public pressure (e.g., Bundy and Pfarrer, 2015; Coombs, 2007).

A criticism of mixed theory is that it can lack methodological detail. In their review of twenty-six studies based on mixed grounded theory, Guetterman, *et al*., (2017) found that only seven studies provided details of their analytical procedures. To ensure the analytic method used in this research can easily be assessed and replicated the procedural detail for data analysis is summarised in Figure 5.2. and explained below. The white boxes in Fig. 5.2. refer to steps taken across cases and the grey boxes to steps taken within each case (see key, bottom left). Each step is discussed in turn.

Figure 5.2. Summary of data analysis process



The data analysis begins (Fig. 5.2. left-hand side, top) with the practical step of extracting textual data from the datasets that contain mixed data. Specifically, from the corporate communications data, the CEO's Report is extracted from each Annual Report and transferred to a Word document together with the textual content of each Sustainability Report and company press releases covering the in-crisis and ex-post crisis periods. The section of the SEC Form 10-K titled, 'Management's Discussion and Analysis of Financial Condition and Results of Operations' (MD&A) and the proxy statements are also extracted and transferred into Word format. This data is then imported (left-hand side, middle), together with the Congressional records, into NVivo (a computer aided qualitative data analysis software) where they are hand

coded to infer how existing theory operates in selected cases. Numerical data (Fig. 5.2. left-hand side, bottom) is extracted and imported into appropriate computational software that aids statistical analysis and interpretation. The stock market data is downloaded from Yahoo Finance and imported into Excel software. ESG disclosures are downloaded from the Refinitiv Eikon database and digitally stored on Excel software where they can be manipulated or transferred to other software platforms for further analysis such as R (a package for statistical computing). The mix of software has been selected to deal with the mixed data deployed.

The textual analysis (Fig. 5.2. moving across the diagram to the second from left, top) is conducted from a cognitive linguistic perspective. Such an analysis examines the language used to ascertain how and what CEOs, senior managers, and Board Directors think about becoming more corporately responsible in response to a crisis (Crilly, Hansen and Zollo, 2016). The textual analysis comprises an iterative process with two distinct phases: critical discourse studies and pattern coding. Critical discourse studies (CDS) are the first approach to the textual analysis. The objective is to frame the texts to identify the perspective that is being presented and compare it over time (Huckin, 1997). The CDS approach is employed first, because the primary activity of CDS is the close analysis of texts that are politically or culturally influential to a given society (such as irresponsible corporate behaviour that has caused a crisis and resulted in public harm); and secondly, CDS in one application can explore oppositions and contradictions (which are at the heart of decoupling) in corporate communications (Angermuller, Maingueneau and Wodak, 2014).

One of the key characteristics of corporate responsibility is corporate behaviour that aims to reduce and compensate for the negative externalities on society and the environment that the firm produces as part of its activities (e.g., Crane, Matten and Spence, 2019). CDS recognise that company disclosures are constructed in a particular context and for a particular reason. In the context of this study, it is understood that the language and other semiotic systems such as texts, photographs, tables, and graphs used by companies in their communications are constructed (consciously or unconsciously) and mediate the reality of the firm's corporate responsibility (Crilly, Hansen and Zollo, 2016; Emmison, 2016). In line with Fairclough (2013), CDS aim to integrate the 'what, how and why' of corporate communications, SEC filings and Congressional records. Company CSR disclosures (what) are integrated with the discursive practices of disclosure (how), for example voluntary reporting or disclosures mandated by regulation; and with the wider environmental and social context in which the disclosure is made (why), for example because the company is legally bound to make changes because of agreeing

to a Congressional Consent Order. CDS also facilitate inter-textual (e.g., between extracts of Annual Reports and Sustainability Reports) comparison over time, to spot tensions, oppositions, and contradictions (Fairhurst and Putnam, 2019).

The notion of potential oppositions in CSR communications is central to this study of corporate responsibility for three reasons. Firstly, such an analysis can identify a decoupling between explicit CSR communications and firm performance (e.g., Morsing and Spence, 2019). Secondly, maximising shareholder value (the dominant economic logic and fiduciary duty of CEOs and company directors) is traditionally set in opposition to corporate responsibility, at least in the short-term (e.g., Moon and Parc, 2019; Lazonick, 2014; Mukunda, 2014; Visser, 2011). Finally, corporate responsibility, as a super wicked problem, means that each stakeholder group inclines to the view that theirs is the primary stake for which the company should be responsible – setting up competing and contradictory expectations (Quazi and O'Brien, 2000). These competing views can be reflected in companies trying (or pretending to try) to please 'all the people all the time' resulting in contradictory disclosures. In sum, CDS are selected because the method analyses sentences, phrases, words, and other semiotic systems to interrogate mediating or confounding variables such as CEO personal accountability in creating power imbalances and inequities that represent the companies' relationship with (and responsibility to) government and the public-at-large as stakeholders (van Dijk, 2015). The next phase of the textual analysis consists of hand coding using a methodology called pattern coding. Pattern coding is conducted following a preparatory reading of the texts in which "lumps" of data (e.g., sentences or paragraphs) are isolated and given a code (or sub-code) consisting of a word or short phrase (Corbin and Strauss, 2015). Pattern coding is a type of meta-code to identify ideas "beyond the tangible and apparent" to form early-stage categories (and sub-categories) (Saldaña, 2016, p.118). It can be likened to cluster or factor analysis. Pattern coding is selected because the method helps to identify emergent themes and concepts which may support or confound the theoretical expectations in P1-P4.

The statistical analysis (Fig. 5.2. second from the left, bottom) is focused on stock market data and ESG disclosures. Stock market data is analysed in various timeframes. Changes in share price movements (expressed in basis points) between the beginning and end of selected periods determine such measures as market capitalisation and total shareholder return (discussed above). ESG disclosures are deployed in the form of CRIs and SRIs. Both types are benchmarked at 24- and 12-months ex-ante; and changes between these readings and readings taken at 12- and 24-months ex-post assess changes in compliant and systemic

responsibility. Change in responsibility is assessed using Boolean analysis. A score is assigned as follows: improvement from year-to-year, remaining the same versus prior year or beginning to report = 1, a deterioration or a break in reporting versus prior year = 0. A net score is calculated for each year. To calculate a company's overall compliant and/or systemic responsibility, the net scores are added and expressed as a percentage of the total possible number of reports during the crisis period. The statistical analysis describes changes in corporate responsibility. The next stage in the analysis (Fig. 5.2. third from left, top and bottom) is separately to synthesise the findings of the textual analysis and the findings of the statistical analysis. Maintaining analytic separation at this stage helps to maximise the explanatory, narrative power of textual analysis and the descriptive clarity of statistical analysis. Textual syntheses are stored in analytic memos in Word format; statistical syntheses are stored in Excel and contain text boxes where relevant. Analytic memos are recoded as needed.

The next step (Fig. 5.2. third from right, top and bottom) is to analyse corporate communications to identify a company's voluntary intentions to become more responsible in response to the crisis as signalled by the CEO and other managers (again, *signalled intentions*). Analysis of Congressional records, particularly Consent Orders and media releases, identifies those measures the company has been ordered to take. In the case of Consent Orders, the company has agreed to undertake the enforcement actions stipulated and by consenting to the Order in the Courts it is legally obliged to carry it out (again, *ordered responses*). As discussed, signalled intentions and ordered responses are 'specific' and/or 'generalised'. Specific and generalised intentions and orders are aligned with subsets of ESG measures to assess a company's change in behaviour over time. Compliant Responsibility Indicators (again, CRIs) are benchmarked ex-ante and changes recorded ex-post are analysed. This analysis of CRIs therefore assesses the actions taken by the company to target (what are perceived to be) the root causes of the crises. But what of improvements in systemic responsibility?

As discussed, a novel panel of 27 ESG indicators called Systemic Responsibility Indicators (again, SRIs) was developed specifically to assess changes in systemic responsibility (summarised in Table 5.3 on page 131). The analysis of the SRIs centres on the changes between benchmarked readings ex-ante and ex-post readings. Each measure has a polarity indicating whether a change resulting in a higher value is a positive or negative indicator of systemic responsibility. For instance, having a higher waste recycling ratio between periods is positive but having higher total water withdrawal is negative. Table 5.5. indicates the polarity of each SRI. The SRIs are made up of two forms of data points: numeric and Boolean. Of the

27 SRIs, twenty-one have numeric values and six have Boolean values. The Boolean data points are: ‘Resource reduction targets,’ ‘Policy executive compensation ESG performance,’ ‘Chief Diversity Officer,’ ‘ESG report auditor name,’ ‘Whistle-blower protection’ and ‘Integrated strategy in MD&A.’

Table 5.5. Polarity of SRIs

ESG Measure (#)	Indicators	Polarity
Environmental (7)	CO2 Equivalent Emissions Total	−
	CO2 Equivalent Indirect Emissions, Scope 3	−
	Resource Reduction Targets	+
	Waste Recycling Ratio	+
	Water Withdrawal Total	−
	Water Recycled	+
	Total environmental R&D/$million in revenue	+
Social (9)	Number of Employees from CSR reporting	+
	Net Employment Creation	+
	Salaries and Wages from CSR reporting	+
	Women Employees	+
	Women Managers	+
	Gender Pay Gap Percentage	+
	Salary Gap	−
	Average Training Hours	+
	Training Costs Per Employee	+
Governance (11)	Non-Executive Board Members	+
	Strictly Independent Board Members	+
	Gender Diversity, Percent	+
	Average Board Tenure	−
	Board Meeting Attendance Average	+
	Committee Meetings Attendance Average	+
	Policy Executive Compensation ESG Performance	+
	Chief Diversity Officer	+
	ESG Report Auditor Name	+
	Whistle-blower protection	+
	Integrated strategy in MD&A	+

In one analysis of changes in systemic responsibility over time, Boolean data points are converted to numeric values. Based on the polarity of the data point (i.e., is having a higher value from one period to another, “better,” “the same” or “worse”?), Boolean data points are converted to default numeric values as follows: better = 1, same = 0, worse = −1. Using this methodology, the SRIs are deployed in one analysis to assess and monitor changes in systemic

responsibility over time as a response to crisis. In combination, analysis of the CRIs and the SRIs provide an assessment of the effect of crises on corporate responsibility (X→Y).

The penultimate step (Fig. 5.2. second from right) is to mix the findings within case from textual and statistical analysis. A mixed synthesis triangulates the company's internal perspective of the crisis, its response, and signalled intentions with the external perspective of stakeholders and society-at-large as represented by Congress. Mixing the textual and statistical data also helps to balance the sometimes outraged and incensed view of the 'harmed' with the more dispassionate view of numbers. Data is analysed in calendar years to coincide with fiscal years and company reporting periods. The fiscal year for each company ends December 31st. However, within each calendar year selected data becomes available at various times. Annual Reports and SEC filings are publicly available in the first four months of the year following the fiscal year; all companies report in March/April, except Facebook which reports in February/March. Sustainability Reports are published regularly and (but historically not necessarily) annually and not necessarily at the same time as the Annual Report. Company press releases are issued on an *ad hoc* basis. Stock market data is contemporaneous with market openings and closings. Finally, ESG measures are verified and updated by Refinitiv on a rolling basis and are generally available 3-6 months after the fiscal year-end. A mixed synthesis identifies anomalies in each dataset and diagnoses patterns from the complementary textual and statistical analysis to identify correlations and determine if any of them explain causal relationships. The mixing of data within case is an iterative process in which support, or rejection, of the propositions (P1-P4) is identified. In the final analytical step (Fig. 5.2. right-hand side) the data across cases is examined for support or rejection of P1-P4.

To conclude, this methodology (and components of it) has been iteratively tested and developed with input and feedback from scholars and practitioners in the field[88]. The research seeks to contribute by building theory which favours a case study approach over a large-N statistical analysis. A small number of cases reduces the number of variables the study needs to control for; allows for the thick description required to explain the causal relationship between crises and corporate responsibility; and offers a concentration of localised data that are fundamental to theory development (Charmaz and Bryant, 2016). A novel dataset of five most likely case studies is screened from an existing dataset: 'The Biggest Corporate Scandals of the Past Decade.' Most likely cases have been selected in line with the 'Sinatra inference':

[88] Events: 'Sustainability for Sceptics' at King's College London (6th February 2020). Mini workshops: 8th September; 8th and 16th October 2020. Workshops: 12th November 2020; 22nd February and 16th-18th March 2021.

if crises (X) can explain corporate responsibility (Y) there, they can explain it anywhere (Levy, 2002). The five cases are classed as intentional crises (Coombs, 2007) offering some control over (X); the US is the epicentre of each crisis controlling for institutional variation in (Y) (Matten and Moon, 2008); and each CEO has been publicly held to account personally for the crisis by Congress, offering some control over the mediating variable (M) in the hypothesised causal logic: crises (X) → publicly holding CEO to account personally (M) → corporate responsibility (Y). Data sources have been selected to operationalise the mechanisms of public accountability and their direct and indirect effects as identified in the analytic framework.

The procedure used to analyse the mixed data operationalised in this research has been detailed and summarised (Fig. 5.2.) to facilitate assessment and replication. Data within each case is imported into appropriate computational software before separated textual and statistical analysis is conducted and the findings synthesised. Each company's targeted response to the crisis is assessed by ESG measures which are aligned with signalled intentions and ordered responses (again, *Corporate Responsibility Indicators* (CRIs)). Systemic responsibility is assessed via the panel of 27 SRIs (again, *Systemic Responsibility Indicators*). In combination, analysis of the change in CRIs and the SRIs ex-ante to ex-post crisis provide an assessment of the effect of crises on corporate responsibility (X→Y). The within case findings of the textual and statistical analysis are then mixed to support or reject P1-P4. In the final analytic step, findings across cases are iteratively mixed to identify themes. The data and methodology described in this chapter are used to discover findings that reject or support the theoretical expectations of P1-P4. The empirical findings are reported in Chapter 6.

6. Results

The findings from the five cases emerge from an iterative analysis of data within and across cases (Fig. 5.2. in Ch.5). To recap, the analysis mixes the findings within case from textual and statistical analysis. Findings also emerge by comparing, analysing and synthesising data across cases. Results are aligned with the three mechanisms of public accountability identified in the analytic framework: public shaming, financial penalties, and enforcement orders to determine causal relationships in support or rejection of P1-P4. The chapter sets out the findings for each mechanism and proposition in turn: public shaming (section 1), financial penalties (section 2), enforcement orders (section 3), their combined effect on corporate responsibility (section 4) before concluding (section 5).

6.1 Results for public shaming (M_1)

The idea that reputational harm is a powerful incentive to correct errant behaviour is at the heart of public shaming as a mechanism of public accountability (e.g., Bundy, *et al.,* 2017; Guglielmo, Monroe and Malle, 2009). By publicly shaming CEOs-in-crisis regulators seek to draw attention to the gap between societal expectations of normative behaviour and the company's actual behaviour before, during and/or after a crisis (e.g., Malle, Guglielmo and Monroe, 2012; Rivoli and Waddock, 2011; McWilliams, Siegel and Wright, 2006). This gap is intended to harm both the CEO's personal reputation and the company's reputation in the eyes of its stakeholders. Such reputational harm is expected to lead to lost sales revenues, employee engagement and shareholder support, for example, which are critical to a company's ongoing prosperity (e.g., Armour, Mayer and Polo, 2017; Bundy, *et al.,* 2017; Coombs and Holladay, 2015; Mitroff, Pearson and Harrington, 1996). Harming the fundamentals of a company's prosperity is expected to act as a powerful incentive to systemic responsibility and is the foundation of this study's first proposition: ***P1.*** *Tougher public shaming of CEOs incentivises companies to high systemic responsibility.* Support for P1. is assessed by considering the manifestation of each of the twelve direct and indirect effects of public shaming (M_1) as a mechanism of public accountability and, in turn, their combined effect on systemic responsibility (Y).

Table 6.1. details the results for public shaming. Each company and its respective crisis are listed (rows 1 and 2) and the results for the twelve effects of public shaming are set out (rows 4-15). Their combined circumstantial effect on systemic responsibility is detailed in row 17. The results for each effect and its impact are discussed in turn.

Table 6.1. Results for public shaming (M_1)

		Company:	**BP**	**VW**	**Facebook**	**Wells Fargo**	**Equifax**	
		Crisis:	Deepwater Horizon	Emission crisis	Cambridge Analytica	Unauthorised accounts	Cybersecurity breach	
Mechanism	*Domain*	*Effects*	*Manifestations*					*Predominance*
Public shaming	*Personal*	**Allocation of responsibility**	Low	Low	Mixed	Medium	Low	*Low*
		Employment status	Mixed	High	Low	High	Mixed	*Mixed*
		Legal status	Low	Low	Medium	Low	Low	*Low*
		Legal accountability	N/A	Mixed	Low	Mixed	N/A	*Mixed*
		Compensation	Low	Low	Low	Low	Low	*Low*
		Compensation recovery	Low	Low	N/A	Low	Low	*Low*
	Corporate	**Sales revenue**	Low	Low	Low	High	Low	*Low*
		Operating profit	High	Low	Low	High	High	*High*
	Shareholder	**Shareholder value**	High	Low	High	High	High	*High*
		Total shareholder return	Low	High	Low	High	Low	*Low*
		Shareholder turnover	Low	Medium	Medium	Low	High	*Mixed*
		Board oversight	Medium	Medium	Medium	High	Mixed	*Medium*
								Average
Responsibility	*Systemic*	**SRIs**	**53%**	**48%**	**45%**	**43%**	**28%**	*43%*

Predominantly, CEOs did not meaningfully allocate responsibility to themselves in a low manifestation of **allocation of responsibility**. Rather, they blamed employees (a medium manifestation) and external suppliers/partners or actors (a low manifestation). Only Zuckerberg (Facebook) in his testimony allocated responsibility to himself (75 % use of personal pronouns in his personal testimony to Congress, e.g., “I/me”). He also allocated responsibility (equally) to employees (use of “we/us”) and bad actors (“they/them”) thus covering a low, medium and high manifestation of being accountable. The bad actors were a Cambridge University researcher named Aleksandr Kogan who shared Facebook users’ data with Cambridge Analytica (a research firm) and the Russian military intelligence services who interfered in the 2016 US presidential election (US House of Representatives, Committee on Energy and Commerce, 2018).

Hayward (BP) allocated responsibility for the explosion on the Deepwater Horizon oil rig partly to employees, and primarily to Halliburton (an oil field services company) and Transocean (an offshore drilling contractor) who owned and operated the Deepwater Horizon rig, and general safety standards and practices in the industry. In Hayward’s defence, the Presidential commission reporting on the disaster one year later allocated responsibility, “to a series of identifiable mistakes made by BP, Halliburton and Transocean that reveal such systematic failures in risk management that they place in doubt the safety culture of the entire industry” (National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling,

2011). Also in a low manifestation, Smith (Equifax) allocated responsibility to employees (and systems), "in the security department" and on,

> *"the criminals who executed a major cyberattack on Equifax, hacked into our data, and were able to access information for over 140 million American consumers"* (Smith, 2017).

Both Winterkorn (VW) and Stumpf (Wells Fargo) allocated responsibility to a small cohort of employees in a medium manifestation. Winterkorn (VW) explicitly stated, "I am not aware of any wrongdoing on my part." He allocated responsibility for the emissions crisis to "the mistakes of a few people" (Winterkorn, 2015). Stumpf (Wells Fargo) similarly blamed a small number of employees for the opening of unsolicited and unauthorised customer accounts,

> *"In any given year, approximately 100,000 individuals work in our retail bank branches, and we have terminated approximately 1 % of that workforce annually for sales practice violations"* (Stumpf, 2016).

The findings support a mixed manifestation of the effect of **employment status**. The average findings for employment status mask a high manifestation for the original CEOs-in-crisis which saw four of the five losing their job. Overall, however, employment status is mixed even excluding incumbents. Table 6.2. details CEO tenure during each crisis. Each company and its respective CEOs are listed (columns 1 and 2). Column 3 sets out the number of working days after the start of the crisis and before giving testimony. Column 4 details the number of working days after giving testimony. Column 5 is a total of the working days since the start of the crisis until termination by the company, or remaining in tenure if current (as of 30th June 2022).

Table 6.2. CEO tenure during crisis

Company	CEOs	Working days before testimony #	Working days after testimony #	Total working days from crisis start #	Employment status
VW	*Winterkorn*	25	11	36	Retired
	Müller	Never testified	Never testified	189	Retired
	Diess	Never testified	Never testified	813	Current
Equifax	*Smith*	10	-4	14	Retired
	Rego Barros	31	107	140	Retired
	Begor	220	850	1071	Current
BP	*Hayward*	42	28	70	Replaced
	Dudley	Not in post	Not in post	After crisis period	Retired

	Looney	Not in post	Not in post	Not in post	Current
Wells Fargo	*Stumpf*	7 & 16	9	25	Retired
	Sloan	246 & 604	11	615	Retired
	Allen Parker	Not in post	Not in post	After crisis period	Retired
	Scharf	96	586	684	Current
Facebook	*Zuckerberg*	723	1075	1090	Current
					as of 30 June 2022

Four of the five original CEOs were sufficiently shamed to be forced by the Board of Directors to leave their post within 28 days of their Congressional hearing. A comparison of Column 3 and 4 indicates the effectiveness of holding CEOs accountable by publicly shaming them to pay for their part in the crisis (or at least in their capacity as the company's most senior executive) with their job. Winterkorn (VW) spent 25 days in the job after the start of the 'Emissions cheating' crisis but resigned 11 days after Horn's testimony on his behalf[89]. Ten working days into the 'Data breach' crisis, Smith (Equifax) anticipated proceedings by retiring four days *before* his hearing. Hayward (BP) 'survived' for seventy working days after the start of the 'Deepwater Horizon' crisis. He worked for forty-two days before giving testimony but was replaced twenty-eight days after his hearing. Stumpf (Wells Fargo), having initially resisted calls for his departure after testifying to Congress, retired nine days after testifying to the Senate. He had worked for seven days since the 'Unauthorised accounts' crisis started prior to giving testimony for the first time. Each case is a high manifestation of public accountability in which the process 'got its man'. The one exception is Zuckerberg (Facebook), who remains in post 1075 days after giving testimony and 1090 days after the 'Cambridge Analytica' crisis started (columns 4 and 5, row 15).

Two of the original CEOs' successors' employments were also terminated. Sloan (Wells Fargo) was called to public account twice. He worked for 246 days after succeeding Stumpf before testifying for the first time. Seventeen months later he was called again, and this time retired 11 days after testifying. Müller (VW) never testified, although he did officially meet regulators on several occasions. Nevertheless, he was deemed to have failed to bring the crisis under control and retired by mutual agreement with the Supervisory Board of VW after 31 months in the role. By comparison, his predecessor Winterkorn was CEO for 106 months and his successor Diess is currently in post 38 months later. Two interim CEOs completed their

[89] Michael Horn, CEO & President, Volkswagen Group of America was replaced on 9th March 2016. His tenure was terminated 102 days after testifying.

term serving seven months each: Rego Barros (Equifax) and Allen Parker (Wells Fargo). Rego Barros was called to testify to Congress 31 working days into the job but served his interim term.

Two of the CEOs currently in post have also testified to Congress. After nearly a year in post, Begor (Equifax) testified to Congress,

> *"to give you an update on the comprehensive actions we have taken in the 18 months following the 2017 cybersecurity incident to transform a number of aspects of our business"* (Begor, 2019).

He continues to serve 850 days later. Scharf (Wells Fargo) testifying 96 days after his appointment recognised that, "We have not yet done what is necessary to address our shortcomings". He is currently CEO 586 days later. Diess (VW) did not publicly testify but has officially met with regulators to negotiate a settlement and is currently in post. Finally, Looney (BP) appointed in 2020 is the only CEO not to publicly engage with regulators in relation to the crisis; he remains in post. The high manifestation of employment status as an effect of public accountability is tempered by a low manifestation in the effect of **legal status**. Every departing CEO left with 'good leaver' status. Good leaver status is a low manifestation of public shaming. This legal status entitles each leaver to the full market value for the payment of unvested options and shares. Additionally, it entitles leavers to full pension provisions, as provided for in their contract of employment.

The results for **legal accountability** as an effect of public shaming are mixed. Departing CEOs can face legal proceedings long after they have left their respective companies. In a high manifestation of public accountability, three CEOs have 'settled' with regulators: Stumpf (Wells Fargo), Winterkorn (VW) and Diess (VW). In January 2020, the Office of the Comptroller of the Currency announced that Stumpf (Wells Fargo) had agreed to a $17.5 million fine and a lifetime ban from working in banking (Los Angeles Times, 2020). Stumpf was 67 years old at the time. On 3rd May 2018, Winterkorn (VW) was indicted in the US (but cannot be extradited as a German national) and since 16th September 2021, is on trial in Germany [90] (although he is as yet, "unable to attend" following surgery). In separate proceedings he is also charged with fraud and market manipulation. Meanwhile, at around the same time as Winterkorn was appearing before a parliamentary committee of the Bundestag in

[90] Winterkorn is one of four ex-VW executives on trial in the Braunschweig district court nearly six years after the Emissions cheating crisis began.

Berlin in 2017, VW was separately pleading guilty in Washington to conspiracy to defraud the United States as well as to obstruction of justice for destroying documents related to the Emissions crisis. On 24th September 2019, Diess (VW) and his Chairman, Pötsch, were charged by German prosecutors for allegedly withholding information from shareholders about the existence of devices designed to defeat emissions tests, thereby "unlawfully influencing the company's share price" four years earlier (Miller, 2020). The charges were dropped in May 2020 when Diess (VW) and Pötsch agreed to fines of €4.5 million each. The fines were paid by VW, not personally, even as the company continued to assert "…that the accusations of the public prosecutor's office against Mr Pötsch and Dr Diess are not founded" (VW, 2020).

Three other CEOs potentially face legal proceedings, so the effect of legal accountability cannot yet be determined. In October 2021, Zuckerberg (Facebook) was added to a lawsuit in New York (first filed in December 2019). Sloan (Wells Fargo) is under investigation by the US Department of Justice for "knowingly and willingly making a false statement to Congress" (US House Committee on Financial Services, 2020). Winterkorn (VW) is on trial in Germany and has been indicted in the US, as discussed above.

Compensation is the only one of the seventeen effects of public accountability that is consistently low in every case. The Directors, who are elected by shareholders to represent their interests, exercise their collective supervisory oversight over the CEO in two principal ways: compensation incentives and governance (Busenbark *et al.,* 2015). Public shaming of the CEO-in-crisis does not translate into compensation packages that are different to pre-crisis. As such, compensation incentives represent a low manifestation of CEO oversight as an effect of public shaming.

Under Hayward (BP), pre-crisis awarding of cash bonuses and vesting of deferred performance was "subject to an assessment of safety and environmental sustainability" by the Compensation Committee (BP, 2009). The inclusion of safety and environmental sustainability was more structured for his successor (Dudley) following the Deepwater Horizon disaster in 2010. The compensation package has four components: salary, cash bonus (annual and deferred), performance shares (annual and deferred) and pension payments. The annual cash bonus element rewards performance against targets and plan. Achievement of targets pays 1.5 times salary. Safety measures relate to 'loss of primary containment' (i.e., oil spills), 'tier 1

process safety events'[91] and 'recordable injury frequency'. Collectively, these measures make up 30 percent of group annual cash bonus objectives; the other 70 percent is based on financial value creation. The performance share component is equivalent to 5.5 times salary and is dependent principally on financial performance, particularly BP's share price relative to peers. Safety measures are included and make up 11 percent of the total award. Dudley's total compensation in 2013, the first full year after the crisis period, was $13,179,000 – nine percent of which related to safety and the environment. In addition to increasing the importance of safety in the structure of the cash bonus and performance shares after the disaster in 2010, the Board also decided to defer payment of Dudley's annual cash bonus for three years from 2012-2014. By 2014, the Compensation Committee Report noted, "There was strong and consistent delivery against this hurdle and 2011 deferred and matched shares vested in full" (BP, 2014). In 2014, two years after the crisis, performance related to safety targets was estimated to represent 11 percent of Dudley's total compensation of $16,390,000.

Following the data breach in 2017, Equifax introduced a new security programme. The overall strength of the security programme is linked to the CEO's equivalent of a cash bonus (called the 'Target Annual Incentive Opportunity' (TAIC)) by assessing CEO performance against a cybersecurity metric. "Achievement of the cybersecurity metric cannot increase an executive's compensation but failure to meet it will decrease the award by up to 25 %" (Equifax, 2020). Begor (Equifax) is the first full-time CEO since Smith's departure. In 2019, the TAIC represented $1,407,465 or 11 percent of his total compensation. If he had failed to achieve the cybersecurity metric, he could have lost up to two-and-a-half percent of the total TAIC – equivalent to $35,187. Begor's total compensation in 2019 was $14,281,552.

The compensation incentives for all other CEOs remain substantively unchanged two years after the crisis in a low manifestation of public shaming. In 2019, in his first full year as CEO post-crisis, Diess (VW) received total compensation of €9,850,742. As the new CEO, Scharf (Wells Fargo), introduced targets for diversity, equity, and inclusion (DE&I), company culture, and achieving net zero carbon emissions by 2050. None of these are reflected in his total compensation award of $20,392,046 which is 274 times the estimated median annual total compensation of Wells Fargo employees. Finally, in 2021, Zuckerberg (Facebook) continued to request that he receive an annual base salary of $1. In 2020, the Board stated that because,

[91] Tier 1 events are losses of primary containment from a process of greatest consequence, or causing harm to a member of the workforce, damage to equipment from a fire or explosion, a community impact or exceeding defined quantities (BP, 2020).

"…negative sentiment regarding our company is directly associated with, and often transferred to, Mr. Zuckerberg" the company pays for an "overall security programme". It continues, "We also provide an annual pre-tax allowance of $10 million to Mr. Zuckerberg to cover additional costs related to his and his family's personal security". Total compensation for Zuckerberg (Facebook) was $25,288,265, which is ninety-six times the median of the annual total compensation of all employees which amounts to $262,633.

Compensation recovery is also consistently low in every relevant case (Zuckerberg (Facebook) remains in post). A low manifestation of personal compensation recovery amounts to non-payment (of unvested options or bonus elements of compensation, for example) and/or payments returned of twenty-five basis points of shareholder value. Four of the 14 CEOs examined have had some of their compensation recovered by the Board: Winterkorn (VW), Stumpf (Wells Fargo), as did his successor Sloan (Wells Fargo), and Smith (Equifax). Of the original CEOs-in-crisis Hayward (BP), and Zuckerberg (Facebook) did not. At the onset of the Emissions cheating crisis in October 2015, Winterkorn (VW) was originally awarded a termination package by the Board estimated to be worth €16.6 million (Davies, 2016). Eighteen months later in January 2017, Winterkorn (VW) testified to a committee of the Bundestag where he denied any wrongdoing. The following year in May 2018, Winterkorn (VW) was indicted in the US but is yet to face trial there. Finally, on 9 June 2021, over four and a half years since he resigned and was awarded his termination package, the company announced a settlement of €288 million with former employees. This included a repayment from former CEO Winterkorn (VW) of €11.2 million for "breaches of due diligence" (Alderman, 2021). This repayment represents a low manifestation of compensation recovery as an effect of public accountability. Three months after this 'settlement', on 16th September 2021, Winterkorn (VW) is on trial with three other ex-VW executives in the Braunschweig district court – nearly six years after the Emissions cheating crisis began – which may yet result in further financial penalties.

During and after the unauthorised accounts crisis, the Board of Wells Fargo recovered compensation from Stumpf (Wells Fargo) in the form of a clawback and forfeiture of approximately $41 million. This amounts to 17bp (again, basis points) of shareholder value and a low manifestation of compensation recovery. According to Bloomberg (a financial news service), the bank's former CEO earned more than $60 million in salary and bonuses during his 15 years and nine months tenure; and retired with stock options worth more than $80 million and a pension valued at $22.7 million (Los Angeles Times, 2020). His successor Sloan (Wells

Fargo), also retired in 2019. Over the eight years leading to the crisis, Sloan is estimated to have been compensated more than $150 million (Flitter, Cowley and Enrich, 2019). The Board recovered $15 million of performance shares granted to him during 2019 and announced that he will receive a standard retirement package. Because he left as a "good leaver", his stock grants worth around $24 million will continue to vest until 2022 (Eisen, 2020). These penalties are approximately 8bp of shareholder value and represent a low manifestation of compensation recovery as a mechanism of financial penalties.

Smith (Equifax) retired four days *before* his Congressional appearance in 2017. At the time, the company said that as a condition of Smith's retirement, he "irrevocably" forfeits any right to a bonus in 2017 worth an estimated $3 million. Again, this represents a low manifestation of compensation recovery. Based on Equifax's SEC filings, Smith left the company with a pension of $24 million and over $90 million in compensation. This comprised $72 million worth of stock options that vested in 2017 (including nine months' worth of his $1,450,000 salary in the year of the crisis) and a further $17.9 million share options that will vest over the next few years (Wieczner, 2017). By 2020, three years after leaving Equifax as a good leaver, Smith is estimated to have received $19.6 million in stock bonuses. The year before paying out these rewards, Equifax had agreed to pay $700 million for claims tied to its massive data breach in 2017. CBS (a news channel) noted that Smith's bonuses, after leaving his post are approximately,

> *"...1,000 times the $20,000 maximum pay-out that any financially damaged customer can collect from Equifax as part of the largest cybersecurity settlement by U.S. regulators in history"* (Gandel, 2019).

The Board of Equifax, under shareholder pressure, have since amended the company's clawback policy to cover damages to the company's reputation as well as accounting fraud.

Nine CEOs whose tenure is contemporaneous with the effects of some of the largest scandals in corporate history did not personally receive any financial penalties from either shareholders or regulators. The financial rewards received by the same CEOs before, during and after being held accountable far exceed the value of the penalties incurred personally. Each case was a low manifestation of personal compensation recovery with the penalties representing less than 25 basis points of shareholder value.

Sales revenues (post-crisis compared to pre-crisis) rose in four of the five cases in a low manifestation of public shaming – confounding expectations. Scholars expect reputational

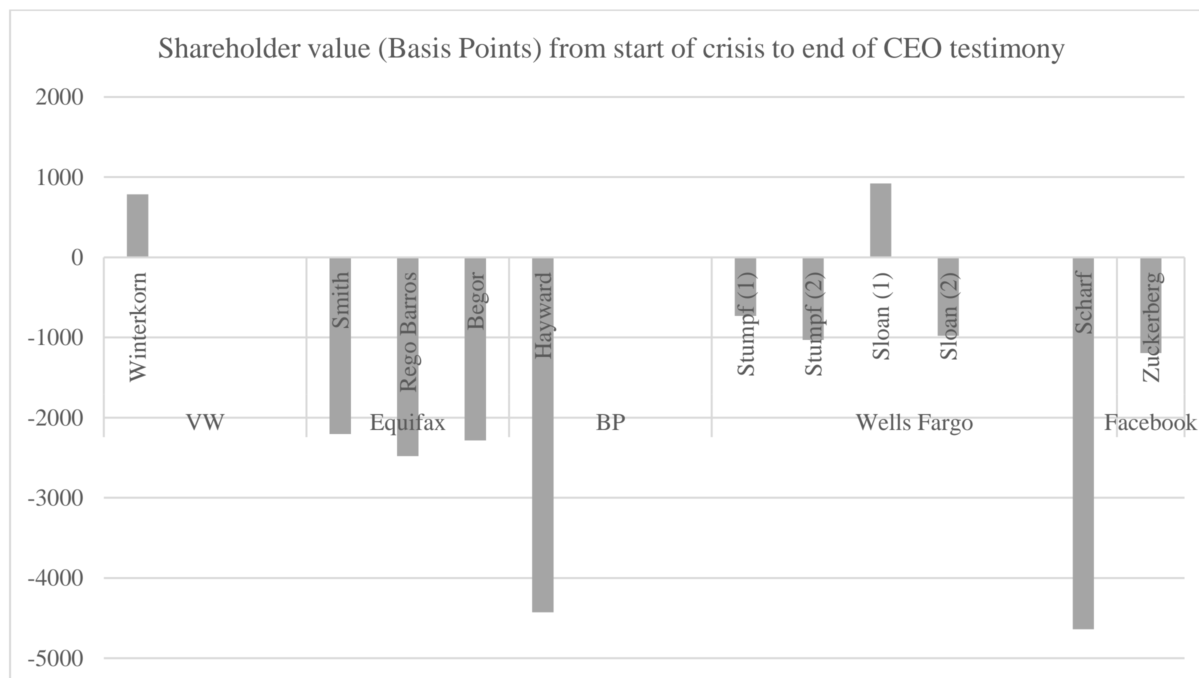
harm to detract from intention to purchase, customer loyalty, and affinity (Weber, *et al.,* 2021) and to negatively affect perceptions of the company (Olson, *et al.,* 2016). The expectation is that such reputational harm leads to lost sales revenue (amongst other losses). BP's sales revenue rose by +56.97 percent, Equifax's rose by +31.24 percent and Wells Fargo's fell by −15.94 percent during the period – confounding expectations. These cases however can be regarded as outliers: BP's sales revenue is dependent on the price of oil, which moves more with macroeconomic and political forces than consumer demand; Wells Fargo's sales revenue is driven by investment and asset management income as well as consumer-facing services such as retail banking; and Equifax earns revenue from financial institutions as well as consumers accessing credit ratings. Findings for companies that are more clearly consumer-facing should be more indicative of reputational harm amongst the public (Weber *et al.,* 2021). Here, the findings further confound existing theory. VW's sales revenue increased by +16.49 percent despite the recall of eleven million of their vehicles worldwide. Facebook sales revenues increased by +190.00 percent after sharing the data of eighty-seven million American users without their knowledge or permission. Reputational harm does not function as the clear incentive theory expects.

Operating profits post-crisis were down compared to pre-crisis in three of the five cases in high manifestations of public accountability, and down in two in low manifestations. Operating profits at Equifax fell by −17.28 percent, BP by −25.33 percent, and Wells Fargo by −14.14 percent. Operating profits for the period were up for VW +9.63 percent. Diess (VW) announced "a record year" in 2018, two years after the crisis ended. This is surprising given that VW is arguably the most traditional consumer-facing company of the five examined, where theoretically operating profits (and sales revenues) would be expected to fall. Operating profit at Facebook rose by +131.42 percent.

The loss of **shareholder value** has the highest manifestation of the twelve direct and indirect effects of public shaming. A crisis rapidly shifts events from the private to the public domain, where it is then played out. Stakeholders, especially those directly impacted by the crisis, demand an 'urgent' response from the company (Aouadi and Marsat, 2016). The public shaming of CEOs-in-crisis starts in the public domain *before* they are called to testify to regulators. As the crisis moves from the business sections of public media to headline news, CEOs-in-crisis typically preside over a loss of shareholder value (i.e., a reduction in the market capitalisation of the company). Such a loss is in line with theoretical expectations (e.g., Crossland and Chen, 2013; Karpoff, *et al*., 2008). Figure 6.1. below graphs the loss of

shareholder value between the start of the crisis and the end of each CEO's testimony for the nine CEOs who testified to Congress. Basis points are used to describe share price movement.

Figure 6.1. Shareholder value from start of crisis to end of CEO testimony



Winterkorn (VW) confounded expectations by seeing a rise in shareholder value of 786 basis points (bp). Sloan (Wells Fargo) testified twice. The first time was a year after succeeding Stumpf, during which time he enjoyed the confidence of shareholders and saw shareholder value rise by 924bp before giving testimony. However, this confidence dissipated in the interval and was down 979bp by the time he testified for the second time. In every other case, shareholder value dropped between the start of the crisis and the CEOs' testimony, indicating a high manifestation of shareholder value as an effect of public shaming.

The results for **total shareholder return** as an effect of public shaming are mixed. Total shareholder return includes the reinvestment of relevant dividends as well as the price change of the company's shares in the pre- and post-crisis period. In low manifestations of public accountability, there was a gain in total shareholder return for Equifax (+2710bp), BP (+1160bp), and Facebook (+1090bp). In high manifestations, total shareholder return fell for VW (−1540bp) and more substantially for Wells Fargo (−4400bp).

Results for **shareholder turnover** as an effect of public shaming are also mixed. Shareholder turnover is defined as choices made by the largest shareholders of common stock over the pre- and post-crisis period. Put simply, the analysis examines whether a company's

largest shareholders, in the event of public shaming, liquidate or reduce their shareholding in the firm in line with expectations (e.g., Gupta and Kumar, 2018; Hirschman, 1970). A high manifestation of shareholder turnover anticipates 50 percent or more of the shareholders exiting their position and selling their stake in the company. Equifax were the only company to experience a high manifestation. Of its three largest shareholders, BlackRock, Inc. and T. Rowe Price Associates, Inc. liquidated their positions. The remaining shareholder Vanguard Group, Inc., increased its holding from 9.2 percent to 10.8 percent. In contrast, two of the largest shareholders in Wells Fargo and BP maintained their position. Wells Fargo lost one shareholder, Berkshire Hathaway, Inc. but retained the support of BlackRock, Inc. (6.9%) and Vanguard Group, Inc. (7.7%), both of whom increased their holdings. BP gained one new shareholder, The Capital Group Companies, Inc. (3.8%), and retained the support of BlackRock, Inc. (5.4%) and Legal & General Group, Plc. (3.8%). Lastly, in a medium manifestation of shareholder turnover as an effect of public shaming, Facebook's largest shareholders Vanguard Group, Inc. (2.7%), BlackRock, Inc. (2.3%) and FMR LLC (Fidelity) (1.8%) increased their holdings[92]. Similarly, VW's three largest shareholders retained their positions: Porsche Automobil Holding SE (52.2%), State of Lower Saxony (20.0%), Qatar Holding LLC (17.0%).

Table 6.3. below details shareholder turnover pre- and post- crisis (again, the change between the largest shareholder positions 12 months prior to the start of the crisis and 24 months after its end). Ten institutional investors represent the largest shareholders of common stock in the five companies (column 1). Most shareholders are invested in one company, apart from Vanguard and BlackRock (column 2). Four shareholders were unchanged in a medium manifestation of public accountability (column 3). Vanguard retained their position in three companies and BlackRock in two, confounding expectations. Legal & General remained loyal to BP (column 4). Only three shareholders exited in a high manifestation of public accountability (column 5). Vanguard, Blackrock and Fidelity did the opposite of what theory anticipates and increased their holdings post-crisis (column 6). BlackRock decreased their holdings in BP post-Deepwater Horizon (column 7) and Capital Group bought in to BP (column 8).

[92] Facebook shares are issued in two classes of Common stock. Holders of Class A shares are entitled to one vote. Holders of Class B are entitled to 10 votes. Zuckerberg (Facebook) personally owns over 60 percent of voting rights.

Table 6.3. Shareholder turnover pre- and post-crisis

Shareholder	*Total Positions*	*Unchanged*	*Retained*	*Exit*	*Increase*	*Decrease*	*Buy*
Vanguard	3	–	3	–	3	0	–
BlackRock	4	1	2	1	2	1	–
Fidelity	1	–	–	–	1	–	–
Berkshire Hathaway	1	–	–	1	–	–	–
Capital Group	1	–	–	–	–	–	1
Legal & General	1	–	1	–	–	–	–
T. Rowe Price	1	–	–	1	–	–	–
Porsche	1	1	–	–	–	–	–
Lower Saxony	1	1	–	–	–	–	–
Qatar Holding	1	1	–	–	–	–	–
Total	15	4	6	3	6	1	1

Building on Hirschman's (1970) conceptualisation of "exit, loyalty and voice", it is possible that shareholders who retained or increased their position after the crisis did so to exercise "voice" and apply coercive pressure on the management to become more responsible rather than exiting. Such a possibility is discussed in Chapter 7. Those fund managers who increased their positions may also have done so to maintain the correct weighting of assets linked to various stock market indices, e.g. S&P 500 – to avoid performance slippage.

Board oversight as an effect of public shaming is manifest at a medium level. The Board exercises oversight of the CEO through governance structures and procedures. Three of the CEOs also served as Chairman pre-crisis. Stumpf (Wells Fargo) was Chairman, CEO and President for six years before the crisis. Smith (Equifax) was Chairman and CEO for 12 years and Zuckerberg (Facebook) was Chairman and CEO also for six years before the Cambridge Analytica crisis. The Board of Wells Fargo separated the roles in 2016 in line with Congressional instructions appointing Sloan, CEO and President, and Sanger, Chairman. Equifax voluntarily separated the roles on the appointment of Rego Barros (Equifax) as Interim CEO. Zuckerberg (Facebook) continues to combine the roles of Chairman and CEO. BP and VW have never combined the roles of CEO and Chairman of the Board. The separation of roles in two of three cases suggests an increase in CEO oversight, however the findings are mixed.

More generally, this study finds that Board Directors are themselves not incentivised to increase oversight of the CEO or to seek higher levels of systemic responsibility in the company's operations. The Directors' fiduciary duty to MSV is unaltered by public accountability. There were no voluntary Board resignations during the crisis periods (i.e., out of rotation) and only a negligible rise in the number of new Non-Executive or Independent Directors (NED). Two NEDs at Wells Fargo resigned two years after the crisis under continuing pressure from US regulators: Duke (Chair) and Quigly. The Board of VW was the

only Board to waive an element of their compensation during the crisis: on average, the Directors of the Supervisory Board took an estimated 23 percent cut in their remuneration in 2016. Lastly, the ability of Directors to oversee CEOs could be limited by their other commitments. Throughout the crisis period, 46 percent of NEDs (Facebook) held other commercial roles in an executive or non-executive capacity. The corresponding figures are 58 percent (Wells Fargo), 55 percent (BP), 58 percent (Equifax) and 52 percent (VW). The average number of commercial and non-commercial NED roles throughout the crisis periods is estimated to be 1.69 (Facebook), 2.3 (Wells Fargo), 2.6 (BP), 2.6 (Equifax) and 2.1 (VW). The effect of public accountability on NEDs is discussed in Chapter 7.

The overall manifestation of the direct and indirect effects of public shaming is mixed[93] with a high degree of variation in the results (Table 6.1. on page 142). There is a low manifestation in six of the effects of public shaming: allocation of responsibility, legal status, sales revenue, total shareholder return, compensation and compensation recovery. The findings are mixed for three of the effects, employment status, legal accountability and shareholder turnover, and medium for Board oversight. Only the remaining two effects manifest at a high level: operating profit and shareholder value. Systemic responsibility is assessed by deploying a novel panel of 27 SRIs (again, Systemic Responsibility Indicators). The SRIs qualify as being material, unique, described and verifiable; twenty-two are quantifiable, five are exclusive. The SRIs are benchmarked at 12-months ex-ante. Change in responsibility is assessed using Boolean analysis. A score is assigned as follows: improvement from year-to-year, remaining the same versus prior year or beginning to report = 1, a deterioration or a break in reporting versus prior year = 0. A net score is calculated for each year. To calculate a company's overall systemic responsibility, the net scores are added and expressed as a percentage of the total possible number of reports during the crisis period.

Table 6.4. sets out the dynamic improvement or deterioration in the SRIs i.e., readings of improvement, maintenance or deterioration for each measure from the previous year. Case companies are listed in column 1. Crisis periods are indicated in columns 2-7. Column 2 details the changes in systemic responsibility between 12 months ex-ante the crisis (CP-1) and the first year of the crisis (CP0(0)). Each successive column details the year-on-year change during the crisis period through to 24 months ex-post (CP+2). The crises are of differing duration and

[93] Manifestations for each company are based on the level with the highest percentage (Table 6.1, columns 4-8). Overall manifestations are based on the predominant manifestation across all companies (Table 6.1, column 9).

marked not applicable (N/A) as relevant. Column 8 details the readings taken at 24-months ex-post to assess systemic responsibility in each case.

Table 6.4. Dynamic Improvement or Deterioration in SRIs

Company	***Dynamic Improvement or Deterioration in Systemic Responsibility Indicators (SRIs)***						***Systemic responsibility***
	Boolean score (total SRIs year-on-year change)						***%***
	CP-1 /CP0(0)	*CP0(1) /CP0(0)*	*CP0(2) /CP0(1)*	*CP+1 /CP0(1)*	*CP+1 /CP0(2)*	*CP+2 /CP+1*	
BP	15	15	N/A	N/A	N/A	13	53%
VW	13	14	N/A	11	N/A	14	48%
Facebook	13	12	N/A	12	N/A	12	45%
Wells Fargo	10	10	15	N/A	12	11	43%
Equifax	8	8	N/A	6	N/A	8	28%
Average	11.8	11.8	N/A	N/A	N/A	11.6	43%

Boolean analysis of SRIs:
Improvement/same/begin reporting versus prior year = 1
Deterioration/stop reporting versus prior year = 0

The overall systemic responsibility reported by the companies 24 months ex-post the crisis is 43% (row 9), representing only a medium manifestation (i.e., 25-75%), not a high manifestation as proposed in P1. As with the findings for the mechanisms of public shaming there is a wide variation in results. BP reports the highest responsibility at 53% (row 4, column 8). To be clear, this percentage is made up of forty-three incidences of improved systemic responsibility out of a possible eighty-one opportunities in the year of the crisis and the two years ex-post. Systemic responsibility is calculated in the same way in each case with the denominator (the number of reporting opportunities) dependent on the duration of each crisis. BP reports the highest manifestation at 53% (row 4). VW reports a 48% manifestation (row 5), Facebook 45% (row 6), Wells Fargo 43% (row 7), and Equifax the lowest manifestation of systemic responsibility at 28% (row 8). In each case, the findings (column 8) do not support P1. which anticipates a high manifestation of systemic responsibility i.e., greater than 75%.

6.2 Results for financial penalties (M_2)

Regulators anticipate that financial penalties send a signal to the markets for a company's goods and services and to the capital markets. Orthodox theory expects this signal to weaken customer demand (e.g., Grappi, *et al.,* 2013) and to encourage investors to reduce access to capital and to increase the cost (e.g., Amel-Zadeh and Serafeim, 2018). Additionally, financial payments and reformative actions are mutually agreed as part of the settlement between the regulator and the company and are enforced by Court orders – legally obliging the company to comply (OECD, 2006). This, together with what Bovens and Schillemans (2014) call the 'accountability bias', whereby the quantity of regulation is perceived to be important in correcting deviant behaviour, is the basis of this study's second proposition: ***P2.*** *Larger financial penalties incentivise companies to high compliant responsibility.*

Table 6.5. sets out the findings for financial penalties and their effect on compliant responsibility. Each company and its respective crisis are listed (rows 1 and 2), the results for the three effects of financial penalties are set out (rows 4-6). Their combined circumstantial effect on compliant responsibility is detailed in row 8. The results for each effect are discussed below.

Table 6.5. Results for financial penalties (M_2)

		Company:	**BP**	**VW**	**Wells Fargo**	**Facebook**	**Equifax**	
		Crisis:	Deepwater Horizon	Emission crisis	Unauthorised accounts	Cambridge Analytica	Cybersecurity breach	
Mechanism	*Domain*	*Effects*	*Manifestations*					*Predominance*
Financial penalties		**Corporate fines**	High	High	High	High	High	*High*
		Corporate penalties	High	High	High	High	High	*High*
		Settlements	High	High	High	High	High	*High*
								Average
Responsibility	*Compliant*	**CRIs**	**54%**	**48%**	**52%**	**60%**	**50%**	*53%*

Corporate fines, **corporate penalties** and **settlements** are the only effects of public accountability that are high in every case. The manifestation of each of the three effects is operationalised using a dataset from (Garrett, *et al.,* 2020) of the distribution of aggregate annual corporate criminal penalties paid to US Government (2000-2018). A high manifestation is the payment of a financial payment that is in the top quartile of aggregate penalties paid to the US government (2000-2018). In total, corporate fines, penalties, and settlements exceeding $50.55 billion were levied against the five companies as part of holding their CEOs to public account. In three cases BP, VW and Facebook, the fines to remediate public harm were the largest in history at the time. For each company (column 1), Table 6.6. details the corporate

fines, penalties, and settlements paid in $ billion (column 2), and the date when the fine was levied, or when the settlement, reached between the company and the regulators, was announced (column 3). The fines, penalties and settlements are expressed as a percentage of sales revenue (column 4) and basis points of shareholder value (column 5) for the fiscal year following their announcement (labelled as FY+1 in row 2).

Table 6.6. Relationship between payments, sales revenue and shareholder value

Company	*Corporate fines, penalties & settlements*	*Date announced*	*% Sales revenue*	*Bp Shareholder value*
	$ billion		*FY+1*	*FY+1*
BP	4.50	15-Nov-12	1.19%	489bp
	20.80	04-Apr-16	8.66%	2,247bp
VW *	9.50	28-Jun-16	4.14%	1,406bp
	4.70	11-Jan-17	1.99%	519bp
Equifax	0.58	22-Jul-19	13.93%	286bp
	0.70	22-Jul-19	16.96%	345bp
Wells Fargo	0.19	08-Sep-16	0.21%	7bp
	1.00	20-Apr-18	1.18%	46bp
	0.58	04-May-18	0.68%	27bp
	3.00	21-Feb-20	3.82%	201bp
Facebook	5.00	24-Jul-19	5.82%	69bp
Total	***50.55***	–	–	
Average			***5.33%***	***513bp***

BP was fined $4.5 billion and made payments of $20 billion (column 2) to restore and conserve habitat, water quality and coastal and marine resources[94] [95]. Additionally, the final estimated cost of compensating over 390,000 claims to cover the public's economic losses under the Court Supervised Settlement Program is estimated to be $40 billion. Total costs to BP of the Deepwater Horizon crisis are estimated at $69 billion (BP, 2020). VW compensated owners of over 500,000 vehicles through a $9.50 billion buy-back or lease termination programme[96]. Additionally, in its final settlement with the Federal Trade Commission, the company paid $4.7 billion to mitigate the pollution from its cars and to invest in green vehicle technology[97]. Equifax paid a total of $1.28 billion in fines in relation to its cybersecurity crisis

[94] (Deepwater Horizon oil spill settlements: Where the money went | National Oceanic and Atmospheric Administration, 2017).
[95] (US Department of Justice, 2016).
[96] VW has made provision of $34.69 billion to cover the costs of the emissions crisis worldwide and as of March 2021 is still facing new lawsuits in France and other countries (VW, 2020).
[97] Federal Trade Commission, 2016.

(column 2), Wells Fargo paid fines and settlements totalling $4.77 billion for its unauthorised accounts crisis, and Facebook paid a $5 billion fine for its part in the Cambridge Analytica crisis. Announcing details of the settlement agreed with Wells Fargo in 2020, US Attorney Andrew Murray stated,

> *"Our settlement with Wells Fargo, and the $3 billion monetary penalty imposed on the bank, go far beyond the cost of doing business"*[98] (US Department of Justice, 2017).

The findings of this study dispute this assertion. To assess the financial harm caused by financial penalties, this analysis calculates the value of each fine or settlement as a percentage of sales revenue[99] and shareholder value (Table 6.6. columns 4 and 5). These two measures are selected because they reflect the core activities of a company and its ability to generate cash flows in future, and the market value of the company (Eccles and Serafeim, 2014). Companies can apportion the payments of fines, penalties and settlements over time, mitigating the harm caused in any one fiscal year. To offset this possibility, this analysis calculates one hundred percent of the cost of financial fines and penalties incurred by the company in the first full fiscal year after the public announcement of the penalties. Theoretically, calculating the cost to the business in a single fiscal year represents the greatest possible harm caused.

The $4.5 billion fine paid by BP (Table 6.6. column 4) represents 1.19 percent of sales revenue and 489bp of shareholder value in 2013. The larger $20 billion settlement is 8.66 percent of sales revenue and 2,247bp of shareholder value in 2017. VW's $9.5 billion compensation was the largest consumer redress program in US history at the time. The programme amounts to 4.14 percent of sales revenue. It represents 1,406bp of shareholder value. The smaller $4.7 billion settlement of 2018 to mitigate the pollution caused and to invest in green vehicle technology is 1.99 percent of sales revenue and 519bp of shareholder value.

Relative to BP and VW, Equifax is a much smaller company. The $580 million and $750 million fines it paid in 2019 represent 13.93 percent and 16.96 percent of sales revenue and 286bp and 345bp of shareholder value in 2020. Wells Fargo paid $190 million in 2016 early in the unauthorised accounts crisis equating to 0.21 percent of sales revenue and 7bp of shareholder value. In 2018, a total of $1.58 billion was paid out in fines and settlements by

[98] Author's italics.
[99] As reported in the Annual Report and Accounts/SEC filings.

Wells Fargo. This amounts to 0.93 percent of sales revenue and 114bp of shareholder value. In 2020, Wells Fargo agreed a final settlement of $3 billion with the Justice Department and SEC to settle claims related to its creation of millions of fake accounts ($500 million of which was used to compensate investors). This represents 3.82 percent of sales revenue and 201bp of shareholder value in 2021. Finally, in a landmark ruling, Facebook was fined $5 billion in 2019 for sharing user profiles without permission in the Cambridge Analytica scandal (FTC, 2019a). The penalty amounts to 5.83 percent of sales revenue and 69bp of shareholder value in that fiscal year.

The manifestations of the three effects of financial penalties are consistent. Corporate fines, corporate penalties, and settlements issued by the regulators are in the top quartile of aggregate annual corporate criminal penalties between 2000 and 2018 inclusive. This represents a high manifestation in each case (Table. 6.5., columns 4-8, p.157). The $50.85 billion in fines and settlements paid by these five companies represents on average 5.33 percent of sales revenue in the next fiscal year. The inverse is worth stating; the companies retained 94.67 percent of sales revenue-as-usual. In total, financial fines and penalties represented 515bp of shareholder value. Support for P2. is assessed in two ways. Firstly, results are reported for the manifestation of financial penalties (M_2) and their circumstantial effect on compliant responsibility (Y). Secondly, results are examined to assess the expectation that '*larger financial penalties'* incentivise high compliant responsibility. Compliant responsibility is assessed by deploying unique subsets of ESG measures called CRIs (again, Compliant Responsibility Indicators).

CRIs are aligned with a company's signalled intentions (e.g., from corporate communications) and ordered responses (e.g., from Consent Orders). They meet the same disclosure properties as SRIs of being material, unique, described, verifiable, and if not quantifiable then exclusive. CRIs (like SRIs) are benchmarked at 12-months ex-ante. Change in responsibility is assessed using Boolean analysis. A score is assigned as follows: improvement from year-to-year, remaining the same versus prior year or beginning to report = 1, a deterioration or a break in reporting versus prior year = 0. A net score is calculated for each year. To calculate a company's overall compliant responsibility, the net scores are added and expressed as a percentage of the total possible number of reports during the crisis period. The overall compliant responsibility reported by the companies 24 months ex-post the crisis is 53% (Table. 6.5., column 5, p.157) representing a medium manifestation (i.e., 25-75%) not a high

manifestation as proposed in P2. Again, as with the findings for the SRIs, a medium manifestation of compliant responsibility in each case fails to support P2.

The second assessment of results examines the expectation explicit in P2., that '*larger financial penalties'* are more effective in incentivising high compliant responsibility than smaller financial penalties i.e., the *quantity* of accountability is expected to be significant in regulating irresponsible or deviant behaviour (e.g., Bovens and Schillemans, 2014; Flinders, 2014). Table 6.7. sets out total corporate fines, penalties & settlements for each company (columns 1 and 2), percentage of compliant responsibility (column 3), percentage of systemic responsibility (column 4) and combined, or total, responsibility (column 5). Companies are ranked in order of their combined responsibility (column 5). Row 9, at the bottom of the table, shows the correlations between fines, penalties & settlements with each type of responsibility.

Table 6.7. Relationships between financial penalties (M_2) and corporate responsibility

Company	*Corporate fines, penalties & settlements*	*Compliant responsibility*	*Systemic responsibility*	*Combined responsibility*
	$ billion	*% CRIs*	*% SRIs*	*Average %*
BP	25.3	54%	53%	54%
Facebook	5.0	60%	45%	53%
VW	14.2	48%	48%	48%
Wells Fargo	4.8	52%	43%	48%
Equifax	1.3	50%	28%	39%
Correlation (r)		-0.052	0.804	0.637

Confounding expectations from P2., there is a negligible relationship ($r = -0.052$) between financial penalties and compliant responsibility. However, there is a high correlation ($r = 0.804$) between the financial penalties and the level of *systemic* responsibility, indicating a very strong relationship. This finding circumstantially supports the aspect of P2. that relates to the quantum of financial penalties if not the type of responsibility. In short, this evidence suggests the larger the financial penalty, the greater the effect on systemic responsibility. The implications of this result will be discussed in the next chapter. The third and final mechanism of public accountability is enforcement orders.

6.3 Results for enforcement orders (M_3)

Ordered responses (i.e., from regulators) and a company's signalled intentions (i.e., from corporate communications) are the two effects of enforcement orders as a mechanism of public accountability. Typically, such mandatory and discretionary reformative actions are

underwritten by the Courts in the form of Consent Orders. Consent Orders are legally binding agreements between regulatory authorities and the company aimed at reducing the risk of recurrence (Garrett, 2014). There is an accountability bias – a belief that ever greater accountability is required to regulate irresponsible behaviour (Bovens and Schillemans, 2014). The expectation that more enforcement will incentivise higher compliance is central to this thesis' third proposition: ***P3.*** *More enforcement orders incentivise companies to high compliant responsibility.* Support for P3. is assessed in two ways. Firstly, results are reported for the manifestation of enforcement orders (M_3) and their circumstantial effect on compliant responsibility (Y). Secondly, results are examined to assess the expectation that *more enforcement orders* provide a powerful incentive to compliant responsibility.

Table 6.8. details the results of enforcement orders as a mechanism of public accountability. Each company is listed (row 1), its respective crisis (row 2) and the results for the effects of enforcement orders are set out (rows 4-5). The circumstantial effect on compliant responsibility is detailed in row 7. Compliant responsibility is assessed by measuring changes from year-to-year (using Boolean analysis as discussed above) in unique panels of CRIs that are aligned with ordered responses and signalled intentions.

Table 6.8. Results for enforcement orders (M_3)

		Company:	**BP**	**VW**	**Wells Fargo**	**Facebook**	**Equifax**	
		Crisis:	Deepwater Horizon	Emission crisis	Unauthorised accounts	Cambridge Analytica	Cybersecurity breach	
Mechanism	*Domain*	*Effects*			*Manifestations*			*Predominance*
Enforcement orders		**Ordered responses**	Medium	Low	Medium	High	Medium	*Medium*
		Signalled intentions	Medium	Medium	Medium	Medium	Medium	*Medium*
								Average
Responsibility	*Compliant*	**CRIs**	**54%**	**48%**	**52%**	**60%**	**50%**	*53%*

Each company reported a medium manifestation of **ordered responses** and **signalled intentions** i.e., partial compliance of between 25% and 75% (column 9). Overall enforcement orders resulted in a medium manifestation (53%) of compliant responsibility (column 9, row 7) which does not support P3. Additionally, each company also reported a medium manifestation of compliant responsibility (columns 4-8, row 7) again failing to find support for P3. in each case. The effects of enforcement orders are analysed by examining ordered responses and signalled intentions in response to the settlement and Consent Order. The results reveal a further variation between the source of enforcement order i.e., ordered responses or signalled intentions. Table 6.9. (below) details the dynamic improvement or deterioration for

each company (column 1) in ordered responses (column 2) and signalled intentions (column 3) over the crisis period.

Table 6.9. Compliance with ordered responses and signalled intentions

Company	***Ordered responses***	***Signalled intentions***
Facebook	100%	56%
Wells Fargo	60%	43%
BP	53%	53%
Equifax	67%	45%
VW	0%	48%
Average	56%	49%

Facebook exhibits a high (perfect) manifestation of compliance with ordered responses (column 2, row 2). Compare this to VW which completely fails to comply with 0% (column 2, row 6). There are also significant, albeit smaller, variations for the remaining three companies' level of compliance. These variations in levels of corporate responsibility (Y) may be caused by variation in the dependent variable (X) noted in Chapter 4. i.e., in the nature of each crisis. BP is an industrial crisis. VW's is crisis resulting from fraud. Wells Fargo is a crisis of mis-selling. Equifax is a cybersecurity crisis. Facebook's crisis id due to lack of transparency surrounding data use. The results for signalled intentions (column 3) are also varied but significantly less so than for ordered responses.

The second aspect of P3. is the expectation that *more enforcement orders* will result in high compliant responsibility. Compliant responsibility is measured by unique subsets of ESG measures (again, CRIs) that are aligned with ordered responses and signalled intentions. The number of measures in each of these subsets varies in line with the number of orders and intentions. Table 6.10. (below) details the number of indicators and the percentage change (i.e., the dynamic improvement or deterioration in the CRIs) for ordered responses and signalled intentions for each company. Case companies are listed in column 1. The number of indicators and the percentage change for ordered responses for each company is listed in columns 2 and 3. Similarly the number of indicators and percentage change for signalled intentions for each company is listed in columns 4 and 5. Finally, columns 6 and 7 set out the total number of indicators and the reported change in compliant responsibility during the crisis period.

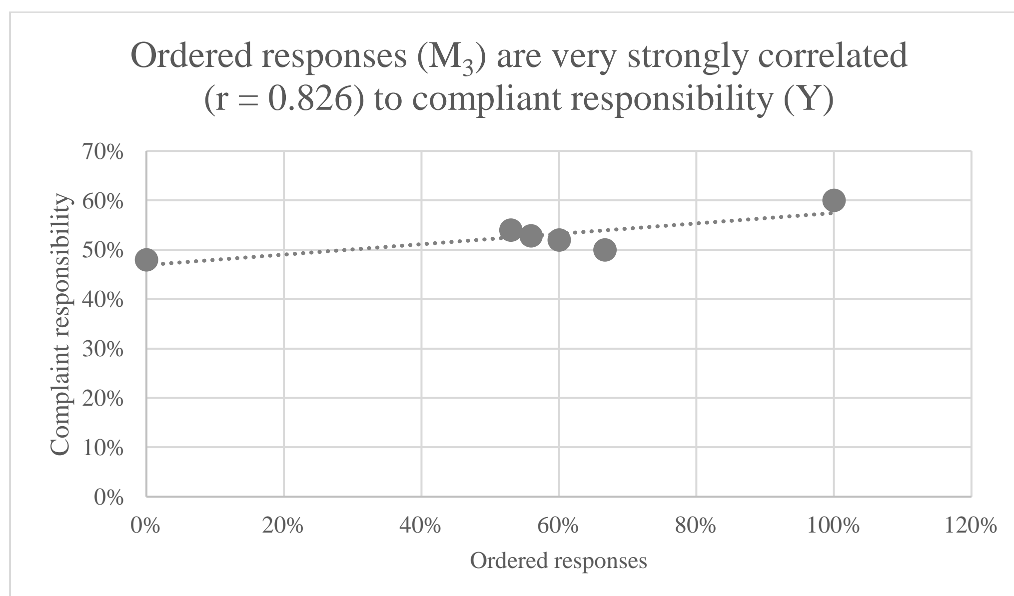
Table 6.10. Ordered responses, signalled intentions and compliant responsibility

	Ordered responses		*Signalled intentions*		*Compliant responsibility*	
Company	***# indicators***	***% change***	***# indicators***	***% change***	***# indicators***	***% change***
Facebook	2	100%	9	56%	11	60%
BP	5	53%	15	53%	20	54%
Wells Fargo	9	60%	13	43%	22	52%
Equifax	6	67%	10	45%	16	50%
VW	2	0%	14	48%	16	48%
Average	4.8	56%	12.2	49%	17	53%

As can be seen in columns 2 and 4, the number of indicators for both ordered responses and signalled intentions varies in each case. When totalled (column 6) for each company the number of CRIs aligned with enforcement orders ranges from 11 to 22 indicators. For example, Facebook (row 3) has the lowest number of indicators (11) and the highest reported level of compliance at 60%. The analysis finds no identifiable relationship between the number of enforcement orders and the level of reported responsibility. This finding does not support this aspect of P3.

However, results indicate that ordered responses may be a better incentive to compliance than signalled intentions – even those signalled in connection with Consent Orders. Figure 6.2. shows a very strong positive correlation (r = 0.826) between ordered responses and compliant responsibility (i.e., between the results in column 3 and column 7 in Table 6.10. above).

Figure 6.2. Correlation between ordered responses and compliant responsibility



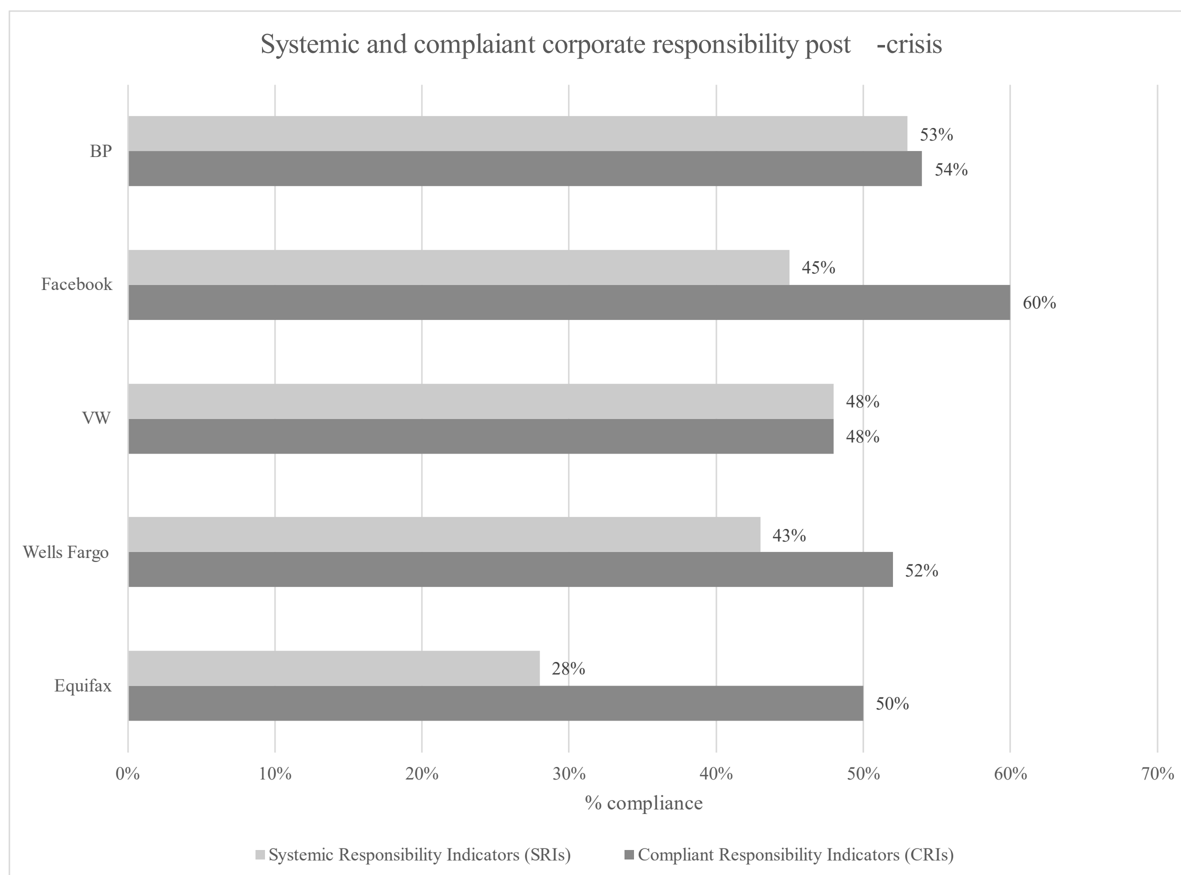
In practice, this finding means that companies take the specific reformative actions ordered by regulators over 80% of the time. This is significantly higher than the relationship between a company's signalled intentions and compliant responsibility (r = 0.760). This finding will be discussed further in Chapter 7.

6.4. Results for combined public shaming, financial penalties and enforcement orders (M_4)

Theory expects that public accountability following a crisis will reassert violated norms and incentivise companies to greater compliant and systemic responsibility; and that the greater degree of public accountability will be significant (Duff, 2009). These expectations are tested in the final proposition of this thesis which is: ***P4.*** *Combining tougher public shaming, larger financial penalties and more enforcement orders incentivises companies to higher compliant and systemic responsibility.* It is founded on the expectation that a combination of the three mechanisms and their respective direct and indirect effects ought to lead to both higher compliant and systemic responsibility.

Compliant responsibility is assessed by deploying unique subsets of ESG measures called CRIs (again, Corporate Responsibility Indicators) which are aligned with enforcement orders. Systemic responsibility is assessed by deploying a novel panel of 27 SRIs (again, Systemic Responsibility Indicators). Both CRIs and SRIs have been qualified against six properties of ESG disclosure. CRIs and SRIs are benchmarked at 24- and 12-months ex-ante and changes between these readings and readings taken at 12- and 24-months ex-post provide a dynamic measure of compliant responsibility. Figure 6.3. shows compliant and systemic responsibility by company 24-months post-crisis.

Figure 6.3. Compliant and systemic responsibility post-crisis



The overall compliant responsibility reported by the companies 24-months ex-post their respective crises is 53% representing a medium manifestation of public accountability.

The average systemic responsibility is found to be lower at 43%, again, a medium manifestation. Averaging compliant and systemic responsibility gives an overall responsibility percentage in each case. Ranked in descending order with the most responsible company overall first: 53.5% for BP; 52.5% for Facebook; 48.0% for VW; 47.5% for Wells Fargo and 39.0% for Equifax; a 37% spread between highest and lowest. Combining mechanisms of public accountability is not found to incentivise high levels of responsibility across cases or in any single case as is proposed in P4. The findings fail to support P4.

6.5. Conclusion

The analysis focuses on CEO personal accountability as the most explanatory mediating variable (M) in the causal logic X → M → Y. Table 6.11. below summarises the findings by company (row 1), crisis (X) (row 2), each mechanism and their direct and indirect effects of public accountability (M) (rows 4-20). The average level of compliant responsibility

(CRIs) and systemic responsibility (SRIs) achieved across the five cases (Y) is summarised (column 9, rows 22 and 23)

Table 6.11. Summary of the effect of crises (X), public accountability (M) on corporate responsibility (Y) achieved by each company

		Company:	**BP**	**VW**	**Facebook**	**Wells Fargo**	**Equifax**	
		Crisis:	Deepwater Horizon	Emission crisis	Cambridge Analytica	Unauthorised accounts	Cybersecurity breach	
Mechanism	*Domain*	*Effects*	*Manifestations*					*Predominance*
Public shaming	*Personal*	**Allocation of responsibility**	Low	Low	Mixed	Medium	Low	*Low*
		Employment status	Mixed	High	Low	High	Mixed	*Mixed*
		Legal status	Low	Low	Medium	Low	Low	*Low*
		Legal accountability	N/A	Mixed	Low	Mixed	N/A	*Mixed*
		Compensation	Low	Low	Low	Low	Low	*Low*
		Compensation recovery	Low	Low	N/A	Low	Low	*Low*
	Corporate	**Sales revenue**	Low	Low	Low	High	Low	*Low*
		Operating profit	High	Low	Low	High	High	*High*
	Shareholder	**Shareholder value**	High	Low	High	High	High	*High*
		Total shareholder return	Low	High	Low	High	Low	*Low*
		Shareholder turnover	Low	Medium	Medium	Low	High	*Mixed*
		Board oversight	Medium	Medium	Medium	High	Mixed	*Medium*
Financial penalties		**Corporate fines**	High	High	High	High	High	*High*
		Penalties	High	High	High	High	High	*High*
		Settlements	High	High	High	High	High	*High*
Enforcement orders		**Ordered responses**	Medium	Low	High	Medium	Medium	*Medium*
		Signalled intentions	Medium	Medium	Medium	Medium	Medium	*Medium*
								Average
Responsibility	*Compliant*	**CRIs**	**54%**	**48%**	**60%**	**52%**	**50%**	*53%*
	Systemic	**SRIs**	**53%**	**48%**	**45%**	**43%**	**28%**	*43%*

The extent to which public shaming works as a mechanism of public accountability is mixed. In the personal domain, CEOs take partial responsibility for a crisis but allocate more of the responsibility for it to employees and/or external parties. Public shaming works to terminate the tenure of CEOs who are in-post when the crisis emerges but not necessarily thereafter. All departing CEOs leave with ‘good leaver’ status, entitling them to significant financial advantages, even though some go on to face legal proceedings years later. The manifestation of compensation is the only one of the seventeen effects of public accountability that is low in every case. There is a low level of compensation recovery in four of five cases and it is not applicable in the other case. In the corporate domain, sales revenues are inconsistently affected by public shaming, as are operating profits. Finally, in the shareholder domain, shareholder value responds to public shaming in a high manifestation in four of five companies. The effect of this appears to be short lived: it does not play out in total shareholder return which is high in two cases and low in three; or in shareholder turnover which is mixed; and Board oversight as an effect of public shaming is also mixed.

The three effects of financial penalties offer consistent results. There is a high manifestation of corporate fines with three of the five cases setting records at the time. Corporate penalties and settlements also manifest at high levels in all cases. An analysis of the relationship between the size of the financial penalties and the level of *systemic* responsibility reveals a high correlation (r = 0.804), indicating a strong relationship. The effects of enforcement orders manifest at a medium level for all companies and do not support P3. in the way that is anticipated. The results differ depending on whether the enforcement order is an ordered response or a signalled intention. There is a very strong positive correlation (r = 0.826) between ordered responses and compliant responsibility. Lastly, the combined effect of all three mechanisms achieves a higher degree of compliant responsibility than systemic responsibility but both are manifest at a lower-than-expected medium level.

The findings reveal a medium degree of reported levels of corporate responsibility as an outcome of crises. Overall, however, the crises examined are not the "generative cleavage" anticipated by Valenzuela and Valenzuela (1987). The findings do not support the concept of crises acting as a critical juncture (e.g., Capoccia, 2015; Collier and Collier, 2007). Instead, companies remain path dependent with succeeding CEOs continuing to be (principally) incentivised to return to business-as-usual. There is extensive variation in the results for ten of the seventeen effects, particularly in the results for public shaming as a mechanism of public accountability. These findings are not consistent with the orthodox belief in the power of reputational harm as a powerful incentive to higher levels of corporate responsibility.

Perhaps unusually, all four propositions examined in this study are found to be false. Each proposition is developed in line with the consensus view of corporate responsibility which expects public scrutiny of irresponsible CEOs to incentivise greater corporate responsibility (e.g., Pirson and Parmar, 2017; Bovens and Schillemans, 2014; Rivoli and Waddock, 2011; Knippenberg and de Jong, 2010). Further, such expectations are thought to be amplified when companies are seeking to regain legitimacy following a crisis (e.g., Coombs 2020; Malle, Guglielmo and Monroe, 2012; Duff, 2009). Each proposition is tested in five extreme cases in which CEOs are called before Congress to very publicly, and under oath, accept personal responsibility for crises and for taking remedial action to ensure the crises do not happen again. As such, the four propositions offer favourable conditions in which to examine existing theory. Yet, empirical findings are not in line with theoretical expectations; and as we will discuss in the next chapter, cannot be sufficiently explained by them. Nor does existing literature sufficiently explain how holding CEOs to personally account for a crisis mediates the

relationship between crises and corporate responsibility. The fact that all four propositions are found to be false points to the need for new analytic tools and new explanations which are the basis of this thesis's contributions.

The next chapter discusses the empirical findings in the context of corporate responsibility, crisis management and public accountability theory before setting out this thesis' theory-based and empirically based contributions to each set of literature.

7. Discussion & Analysis: Theory of Accountability Subversion

The first section of this chapter summarises and discusses the findings for each of the three mechanisms of public accountability identified in the analytic framework: public shaming, financial penalties and enforcement orders. Section two details the principal contribution of this thesis: the theory of Accountability Subversion. Accountability subversion conceptualises companies deliberate use of countermeasures to reduce the effects of public accountability. This chapter will analyse and discuss how six views of corporate responsibility, in their different ways, are insufficient to explain the empirical results of this research. The six views (identified in Chapter 3) are: the ethical view (e.g. Mayer, 2018; Herzig and Moon, 2012), a co-dependent view (e.g., Carney, 2021; Freeman, Phillips and Sisodia, 2018; Stern, 2011), a responsive view (e.g., Pirson and Parmar, 2017; Rivoli and Waddock, 2011; Knippenberg and de Jong, 2010; Mitchell, Agle and Wood, 1997), the shareholder view (e.g., Ronnegard and Smith, 2018; Jensen and Meckling, 1976; Friedman, 1970), the input view (e.g., Khan, Serafeim and Yoon, 2016; Quentin and Campling, 2017; Friede, Busch and Bassen, 2015) and finally, the constrained view (de Bakker *et al*,. 2020; Schneider, 2019). In its second theory-based contribution accountability subversion explains how reputational harm is not as powerful an incentive to high levels of systemic responsibility as scholars expect (e.g., Tao and Song, 2020; Gatti, Seele and Rademacher, 2019; Daudigeos, Roulet and Valiorgue, 2018; Aouadi and Marsat, 2016; Janssen, Sen and Bhattacharya, 2015; Zavyalova, 2014; Bhattacharya and Sen, 2004). Lastly, the third theory-based contribution of accountability subversion extends research regarding instrumental ESG disclosures (e.g., Alessi and Battiston, 2022; Velte, 2019; Li, *et al.*, 2018) by theorising that public accountability may inadvertently motivate companies to greenwash.

This thesis also makes a theory-based contribution to crisis management scholarship by conceptualising the extent to which improved corporate behaviour is a response to crisis *per se*. This extends scholars' understanding of the *communication* of CSR as: a crisis response strategy (e.g., Moreno and Kang, 2020; Ham and Kim, 2020; Coombs, 2007), an integral part of repairing stakeholder relationships post-crisis (e.g., Gillespie and Dietz, 2009; Coombs and Holladay, 2002), and a means of improving knowledge and learning (e.g., Bachmann, Gillespie and Priem, 2015; Kern, Laguecir and Leca, 2013; Haack, *et al.,* 2012). Lastly, section two discusses how the empirical based contribution of conceptualising and deploying a novel framework to examine the mechanisms and effects of public accountability, extends knowledge into the distinction between unexpected (e.g., Hargie, Stapleton and Tourish, 2010)

and expected public accountability (Lerner and Tetlock, 1999), and how public accountability works (e.g., Schillemans, 2016). Section three summarises this thesis's contribution and concludes the chapter.

7.1. Summary findings

The reputational harm caused by public shaming does not incentivise high levels of systemic responsibility. This holds true for each of the personal, corporate and shareholder domains. In the personal domain, CEOs' personal acceptance of responsibility is a low manifestation. In other words, they allocate more of the responsibility for the crisis to employees and partners/others than they do to themselves. The initial allocation of responsibility by the CEO is largely symbolic; it serves to mitigate personal accountability and to frame future negotiations with regulators. In every case, the CEO's initial framing of the crisis was maintained by their successors. The tenure of four of the five CEOs was terminated by the Board of Directors. Yet, the very different nature of the terminations also mitigates substantive public shame and reputational damage. Zuckerberg (Facebook) remains in post, Stumpf (Wells Fargo) resisted, and then retired, Hayward (BP) was replaced, Smith (Equifax) retired before his Congressional hearing and Winterkorn (VW) resigned. Tenure was terminated in only five of 14 CEOs.

All departing CEOs left as 'good leavers', thus maximising the value of unvested stock options and incentives. Companies appear to be able to de-couple themselves from publicly shamed and tainted CEOs by forcing their departure. This de-coupling creates separation between the shamed CEO and their successors (Hearit, 2005*)*. Separation has three critical effects on successors. Firstly, public shame and accountability for the crisis becomes embodied in the departed CEO and reputational damage is not transferred to successors. Of nine successor CEOs, only two have also departed prematurely. The succeeding CEO can rightfully claim to not have been in charge at the time. This is self-evidently true in those cases where a new CEO is recruited from outside the company. It can be more problematic however when successors are promoted from within the management team. Both Sloan (Wells Fargo) and Müller (VW) were internal appointees, and both also were forced to resign; Dudley (BP) was also an internal appointment but successfully completed a full term. The success of public shaming in 'getting the person responsible' does not appear to provide an incentive for successors to pursue systemic responsibility. The threat of personal reputational harm is not as powerful an incentive as policymakers and society expects.

The second effect of companies decoupling themselves from publicly shamed CEOs concerns personal legal accountability. In his book, Garrett (2014) suggested that CEOs may be *'Too Big to Jail'*. In the event of irresponsible corporate behaviour he observed,

> *"The pattern was as follows: a settlement agreement would be announced, the company would pay a large fine and agree to improve compliance, and even if individuals were not immunized as part of the settlement, in practice, no individuals would be charged in the years afterwards"* (Garrett, 2014).

This study finds (at the time of writing) that three CEOs settled legal cases with regulators, two have been indicted and are awaiting trial, and one is under investigation. A combination of immunisation of individuals from prosecution as part of a settlement with regulators and contractual devices such as D&O (again, Directors and Officers) insurance offsets legal accountability (e.g., Pistor, 2019; Finch, 1994), or at least delays its prosecution on civil grounds (Garrett, 2020). This delay, typically of several years, contributes to the company's ability to de-couple successors from the tainted and departed CEO. Again, public shaming appears to achieve medium rather than high levels of systemic responsibility.

The third effect of the decoupling of companies from tainted CEOs focuses on compensation as a possible incentive to a high manifestation of systemic responsibility. Following the departure of the CEO-in-crisis, the succeeding CEO is appointed by the Board of Directors and is ratified by shareholders at the next Annual General Meeting (AGM). The CEO reports to the Board. The Board of Directors, who are elected to represent shareholders' interests, exercise their collective supervisory oversight over the CEO in two principal ways: compensation incentives and governance (Busenbark, *et al.,* 2015). In the eyes of the law, overseeing CEO compensation is the principal task of the Board which has a fiduciary duty to maximise shareholder value. Compensation packages for successor CEOs reflect this. Variable compensation was altered symbolically for two CEOs to reflect more responsible behaviour post-crisis (amounting to approximately 0.2 percent of total compensation in one case and ten percent in the other) and not at all for the remaining 12 CEOs.

In every case where it is applicable, the manifestation of personal compensation recovery as an indirect effect of public shaming was low. Compensation recovery can be initiated by the Board of Directors using what are known as 'clawback' provisions common in CEO employment contracts. The clawback is intended as compensation for financial loss caused by irresponsible behaviour and involves the non-payment of incentive elements of

compensation or the return of payments already made (Kahn, *et al.*, 2020). Despite the material, post-crisis financial losses incurred directly by each company and its shareholders, a clawback clause was not sufficiently invoked in the four cases where CEO tenure was terminated. Although tens of millions of dollars were clawed back in some cases[100], financial rewards received by CEOs throughout tenure significantly exceed the value of compensation recovered. The company indirectly bears the costs of insufficient clawback (e.g., in the form of reduced profits). Tellingly, the Board of Wells Fargo introduced "enhanced Clawback and Forfeiture Policy to strengthen our ability to forfeit and recover compensation under appropriate circumstances" (Wells Fargo, 2020). Similarly, the Board of Equifax have widened the company's clawback policy to cover reputational damage as well as accounting fraud.

Of the 17 direct and indirect effects of public accountability, compensation is the only one that has a consistently low manifestation in every case and for every CEO. CEO compensation designed to motivate the maximisation of shareholder value constrains a firm's capacity for systemic responsibility (de Bakker, *et al.*, 2020). There are no greater incentives for successor CEOs to pursue high systemic responsibility post-public shaming, than there were for their antecedents pre-crisis. It is possible that successor CEOs are motivated to pursue high levels of systemic responsibility as theory expects but lack the capacity to make it a reality – a decoupling of policy and practice (e.g., Hengst, *et al.,* 2019; Bromley and Powell, 2012). CEOs may issue new policies and initiatives aimed at achieving high systemic responsibility post-crisis, but managers may be unsure how to implement them or may feel that implementation conflicts with other stated goals they are also responsible for; the maximisation of shareholder, not stakeholder, value for example. In such circumstances, managers "muddle through" favouring what they believe to be substantive policies that are in their own and the company's interests rather than policies they perceive to be symbolic (Crilly, Zollo and Hansen, 2012).

Managers, like CEOs, are typically incentivised via performance pay schemes. Such pay schemes involve managers' performance being assessed against KPIs. Another common incentive is the payment of cash bonuses contingent on (at least partial) achievement of company targets (Young and Gifford, 2021). A final type of incentive common to many companies is equity-based bonuses (Jensen and Meckling, 1976). Irrespective of the mechanism selected, or their combination, scholars have found that employees on performance-related pay are aware that it is contingent on the company's overall stated aim

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[100] Clawbacks: Stumpf (Wells Fargo) $41million; Sloan (Wells Fargo) $15 million; Winterkorn (VW) €11.2 million; Smith (Equifax) $3 million (pre-emptively when retiring before the Congressional hearing).

which is typically and predominantly focused on MSV (e.g., Crossland and Chen, 2013). The findings support the idea that the continuing predominance of MSV as the institutional logic of the global financial system is one of the constraints at the core of resistance to acceptance and practice of greater corporate responsibility in the personal as well as in the corporate domain (e.g., de Bakker, *et al.*, 2020; Shin and You, 2019).

In the corporate domain, this thesis finds that reputational harm to the company because of public accountability does not manifest in a high level of systemic responsibility. The Systemic Responsibility Indicators (again, SRIs) varied considerably across cases: Equifax recorded a 28 percent improvement 24-months ex-post. The crisis at Equifax was the result of a data breach following a cybersecurity attack. As such, ordered responses and signalled intentions were narrowly focused on cybersecurity. The relatively lower manifestation of SRIs compared to other cases reflects this narrow focus. In the other cases, ordered responses and signalled intentions were more broadly focused: workers injury and containment of oil (BP), manufacturing processes (VW), mis-selling (Wells Fargo) and data usage (Facebook). Such systemic irresponsibility can be expected to result in a high manifestation of systemic responsibility after public shaming. Yet, only medium levels of systemic responsibility were recorded in every case: BP (53%), VW (48%), Facebook (45%) and Wells Fargo (43%). A substantive (high) manifestation of systemic responsibility has not occurred 24-months post-crisis in any case. Using Fleming's (1958) infamous phrase corporate reputation is 'shaken' by public shaming 'and not stirred'. In other words, it has only a medium effect on systemic responsibility and does not achieve the high levels expected by scholars (or regulators).

It may be that 24-months post-crisis is insufficient time in which the company can effect systemic change. The SRIs were developed as a unique panel of 27 ESG measures based on voluntary disclosures. Voluntary disclosure is at the heart of our understanding of corporate responsibility (discussed in Chapter 2) which (in part) is defined as activity undertaken by the firm that exceeds mandated requirements – such as ordered responses (Matten and Moon, 2008). It is reasonable to assume that a company, whose reputation has been harmed by a crisis, perceived by the public to be of their making and which has resulted in widespread public harm, would be keen to disclose improvements in behaviour to alleviate reputational harm suffered. It is possible that internal change has begun but has not been externally reported i.e., there is a disclosure gap (Hawn and Ioannou, 2016). In such circumstances, increases in systemic responsibility would not be recorded in the SRIs. Future research over a longer time frame of analysis could record such initiatives.

Such a disclosure gap may develop because managers fear that reporting improved responsibility raises the expectations bar to a height where, in the event of future irresponsible behaviour, stakeholders will be more likely to attribute blame and be more demanding of the company's response (Janssen, Sen and Bhattacharya, 2015). In other words, if expectations are raised too high, and irresponsible behaviour subsequently takes place, there is a risk that reputational harm will be amplified (Coombs and Holladay, 2015). Nevertheless, there is a trade-off that managers must make. Hawn and Ioannou (2016) found that the market value of a company is lower when companies do not report externally on responsible behaviour. This suggests that it is in managers' interests to fully disclose improvements in systemic responsibility post-crisis if they are to fulfil their fiduciary duty of MSV and to maximise their personal compensation. It raises the question: if change is substantive, why not report it in formal ESG disclosures, company filings and sustainability reports?

As discussed above, by forcing the departure of publicly shamed and tainted CEOs, companies decouple themselves from them. The departed CEO comes to embody the shame and accountability for the crisis and reputational damage appears to stick with them rather than transfer to the company. This decoupling appears to mitigate reputational harm for the company. An underlying assumption in corporate responsibility, and in ESG reporting, is that there is a causal logic between disclosure and responsible behaviour. Disclosure (or in this study, exposure) is the driver of more transparency which brings corporate behaviour into the public domain (Daudigeos, Roulet and Valiorgue, 2018). Commitments to becoming more responsible are often made in public statements by the CEO and are expected to force the company to become accountable for its actions and do what it says it will (e.g., Graafland and de Bakker, 2021; Daudigeos, Roulet and Valiorgue, 2018; Guiso, Sapienza and Zingales, 2015). This study finds that public accountability fails to achieve the high levels of systemic responsibility scholars expect.

Deviation from a company's signalled intentions is expected to result in reputational harm (e.g., Tao and Song, 2020; Ham and Kim, 2020). The risk of reputational harm is associated with declines in mission-critical factors such as lower market valuation (e.g., Armour, Mayer and Polo, 2017), increases in consumer activism against the company (e.g., Donaghey and Reinecke, 2017) and higher staff turnover (e.g., Gartenberg, Prat and Serafeim, 2016; Waddock, 2008). The risk of penalties caused by reputational harm is expected to incentivise systemic responsibility (e.g., Bundy, *et al.,* 2017; Herzig and Moon, 2012). This causal logic can be summarised as: disclosure → transparency → accountability →

reputational risk → improvement in responsible behaviour. Some scholars have argued this is a “stubborn” view and that reputational harm is not the incentive to corporate responsibility that scholars expect (Jackson, *et al.,* 2014). They argue, for example, that there are limits to reputational effects (Karpoff, 2014), that it can be difficult at the firm level to attribute irresponsible behaviour (e.g., Lange and Zavyalova, 2014; Harrington, 2014), and that irresponsibility is differently framed by different macro-level institutions (Partnoy and King, 2014).

In examining the effects of reputational harm, this research finds that sales revenue, as an effect of public shaming, has a low manifestation. Sales revenues rose in four of five cases. This means that while public shaming may cause some reputational harm, the harm *(ceteris paribus)* does not cause enough customers and users to refrain from purchasing the company’s good and services. This finding is the opposite of theoretical expectations which generally view reputational risk as a powerful incentive to responsible corporate behaviour (e.g., Schillemans, 2013), particularly post-crisis (Armour, Mayer and Polo, 2017). Scholars have focused on companies’ use of CSR communications as a crisis response strategy to improve stakeholder perceptions of the company’s responsibility (e.g., Coombs, 2020, 2007; Vanhamme and Grobben, 2009; Bhattacharya, Korschun and Sen, 2008). Communication of corporate responsibility, through philanthropy, advertising, public relations, and lobbying has become pervasive over the past forty years (Martin, *et al.,* 2021). For example, in 2015-16 disclosed spending on corporate lobbying (an activity notoriously conducted in private) was estimated to be £2 billion in London; €1.5 billion in Brussels and $3.15 billion in Washington (McTague, 2019). To put this in context, it is approximately equal to 25 percent of the US annual spending on elementary and secondary education in those years (USAspending.gov, 2017). On the assumption that companies do not pay for lobbying that promotes blatantly irresponsible behaviour (which is generally unlikely to get a good hearing from politicians and regulators), we can reasonably assume that claims of responsible corporate behaviour are central to this type of communication.

Operating profit is the other indirect effect of public shaming in the corporate domain. Here, there were mixed results, with a high manifestation of the effect of public shaming on responsible behaviour in three cases, but a low manifestation in the other two. This finding suggests that companies make ‘special provisions’ (as they are known in professional accounting standards) to the financial accounts to manage costs associated with a crisis such as fines, compensation, and reorganisation. Such special provisions aim to return the profit and

loss account to business-as-usual as soon as possible. In effect, the extraordinary transaction costs of a crisis are accounted for as 'special items' in companies' SEC filings, signalling that business can proceed substantively-as-usual.

In the shareholder domain, shareholder value is initially lost with stock prices falling between the start of the crisis and the end of the CEO testifying to Congress in every case. This period between awareness of the crisis and CEO testimony is a period of uncertainty which generally drives price fluctuation in public stock markets. However, this loss is relatively temporary, with prices recovering in line with their respective stock market within twelve months. Typically, the share price rebounds on the appointment of a successor and/or on the announcement of corporate fines, corporate penalties and settlements which, once the quantum is known, can be assessed by the investment community against future discounted cash flows. Such an assessment is reflected in total shareholder return, which rose in three cases and fell in two. Companies instrumentally manage total shareholder return through share buybacks and their dividend policy with the aim of managing shareholders expectations and retaining their investment in the firm. The success of shareholder management is apparent in mixed manifestations of shareholder turnover – in only one case did most of the largest shareholders sell their position and exit – suggesting shareholders generally anticipated a return to MSV-as-usual, rather than a substantive change in the business post-crisis (e.g., Gupta and Kumar, 2018; Hirschman, 1970). It may be that shareholders are staying to give "voice" to their concerns and to influence and apply "coercive pressure" on CEOs to achieve high levels of systemic responsibility (Ioannou and Serafeim, 2019, pp.10,11).

The final effect of public shaming in the shareholder domain is Board oversight. Oversight of the CEO was increased with the separation of the Chair/CEO role in two out of three possible cases where the role of Chair and CEO had been combined; there was no other discernible change in oversight in those two instances and Zuckerberg (Facebook) remains Chairman and CEO in the third case. Additionally, there was no other discernible change in oversight for any of the remaining 11 CEOs. Except for a small increase in non-executive directors (again, NEDs) and the appointment of female directors – the study finds that Board size, directors' compensation and the number of additional commercial roles held simultaneously in other companies by NEDs remains largely unaltered post-crisis, constraining the Board's ability to increase oversight of the CEO. There is societal (and regulatory) pressure for more female directors and their appointment in some cases post-crisis could be considered

opportune and symbolic. There is no substantive change to Board Directors' compensation or duties post-crisis and therefore little recorded impact on responsibility.

To conclude, in the personal domain, the risk of reputational harm does not incentivise successor CEOs to pursue high systemic responsibility. The allocation of responsibility and the termination of tenure of the CEO-in-crisis is largely symbolic. Compensation packages are unaltered. Even in the case of irresponsible behaviour, compensation recovery is relatively low. The prospect of legal accountability causing an increase in responsibility is mitigated by legal and insurance devices encoded into settlements with regulators and employment contracts (Pistor, 2019). In the corporate domain, public shaming does not result in sufficient reputational harm to the company to cause sales revenues to fall. Where operating profits are affected, provisions are made to account for financial loss as a special item on the balance sheet (Eccles and Serafeim, 2014). Lastly, in the shareholder domain, public shaming causes substantive losses in shareholder value – but only temporarily – until proceedings are finalised and their implications can be assessed and managed by shareholders. The effects of public shaming on total shareholder return, shareholder turnover and Board oversight all suggest moderate change post-crisis. In sum, reputational harm because of public shaming is not found to be the incentive to high systemic responsibility that mainstream theory expects in any of the personal, corporate or shareholder domains. The effect of public shaming as a mechanism of public accountability, and its ability to incentivise high levels of systemic responsibility, is mitigated for different reasons. These are discussed in section 7.2.

Of the seventeen direct and indirect effects mechanisms of public accountability corporate fines, corporate penalties and settlements are the only three effects that are high in every case. The financial penalties result in increased compliant responsibility but not to the extent expected. Although the corporate fines in three cases set a record at the time, they can be considered as a cost of doing business (Lund and Sarin, 2020). On average, in the financial year immediately after the crisis[101], companies retained 95 percent of sales revenue-as-usual and 95 percent of shareholder value. In a separate finding, financial penalties have a high correlation with systemic responsibility (r = 0.804) indicating that the more penalties, the greater the response from the company (but not on compliant responsibility as anticipated). This surprising relationship poses an interesting question which is discussed in the next section. In summary, financial penalties are borne to a greater extent corporately than they are

[101] Theoretically, calculating the cost to the business in a single financial year represents the greatest possible harm caused.

personally. Companies indirectly bear the costs of insufficient clawback of CEO compensation, and pay the corporate fines, corporate penalties, and settlements levied post-crisis as part of their agreement with regulators. In short, financial penalties are corporate and rewards are personal. And yet it is individuals in executive management and on the Board of Directors who jointly and severally are the decision-makers.

Each company reported a medium rather than high manifestation of compliant responsibility in response to Consent Orders[102]. Overall enforcement orders as a mechanism of public accountability resulted in a 53 percent manifestation of compliant responsibility compared to an expected manifestation of 75 percent or more. Enforcement orders are analysed by examining a company's reported response to instructions from regulators on reformative actions and a company's signalled intentions (e.g., public commitments on intended reforms). There is a very strong positive correlation (r = 0.826) between ordered responses and compliant responsibility. This suggests that companies become more responsible because of this direct effect of public accountability.

The finding discussed above that financial penalties and the legally binding commitments that accompany them are highly correlated with systemic responsibility, adds weight to the inference that obligation rather than incentive is the motivation for compliant responsibility. The compliance gap between the level of responsibility companies report and their obligation can be explained by a difference in interpretation (between the company and regulators or between CEOs and managers and employees) of what is required. A gap can also be due to an overlap between compliant and systemic responsibility measures[103], and/or by what, where and when responsible behaviour is reported (e.g., Bannier, Bofinger and Rock, 2022; Hsieh, *et al.,* 2018; Kirby, Kirton and Crean, 2018, Matten and Moon, 2008). The finding that ordered responses are highly correlated to compliant responsibility (and are manifest at a higher level than systemic responsibility) argues in favour of legal enforcement versus voluntary and self-regulated alternatives. The relationship between legally enforced compliant and systemic responsibility suggests that companies judge they are obliged and not incentivised to high levels of responsibility.

Combining tougher public shaming, larger financial penalties and more enforcement orders has a medium effect on compliant and systemic responsibility across cases and in every

[102] Wells Fargo ranked third (of five) with compliant responsibility at 52 percent post-public accountability.
[103] The research methodology seeks to minimise overlap by de-duplicating compliance responsibility indicators and systemic responsibility indicators.

case. It is important to note that BP, who achieved the highest combined responsibility, is the only company to have made relatively significant changes to CEO compensation post-crisis[104]. There is a 37 percent spread between the highest combined responsibility (BP at 53.5 percent and Equifax at 39 percent), indicating that more responsible behaviour is contingent on the circumstances and unique conditions of each case. For example, BP's Consent Orders include the most industry level measures (around health and safety) compared to Equifax, whose Consent Orders contain the most specific measures (related to cybersecurity). Facebook's settlement contains a mix of industry and firm-level orders; Wells Fargo and VW's settlements focus primarily on firm-level reforms. In short, when it comes to public accountability, one size does not fit all.

As discussed in Chapter 4, there are three key variations on the independent variable (X) might help to explain these variations in different levels of corporate responsibility (Y). Firstly, the empirical findings support some sectoral differences in the performance of corporate responsibility (e.g., Dyck, *et al*., 2018). BP and VW are classed as 'industrial' companies (in an agriculture, industry, services typology) and Wells Fargo, Equifax and Facebook are classed as 'services'. Secondly, variation in the nature of each crisis may also be an explanatory variable: BP is an industrial crisis, VW is fraud, Wells Fargo is mis-selling, Equifax is cybersecurity and Facebook is lack of transparent surrounding data use. Lastly, cultural variation, whereby three of the case companies are headquartered in the U.S., one in Britain and one in Germany, may have led to differences in the performance of corporate responsibility (e.g., Favotto and Kollman, 2020). These possibilities could be explored in future iterations of this study.

In conclusion, the overall finding is that publicly holding CEOs to personally account for crises results in medium levels of compliant and systemic responsibility. The reputational harm caused by public shaming does not substantively affect successor CEO, sales revenue, operating profits, or shareholder returns and turnover. If, and when, individuals are prosecuted they have typically left the company and are sanctioned as private citizens long after the crisis. Financial penalties are borne to a much greater extent by the company than by CEOs, meaning that penalties are corporate, and rewards are personal. Even record fines are little more to large companies than a cost of doing business. Enforcement orders and legal commitments are highly correlated to compliant and systemic responsibility, suggesting that companies are not

[104] The importance of KPIs relating to safety and the environment was increased by the Board and amounted to 9% of Dudley's (BP) total compensation in 2013, the first full year after the crisis period.

incentivised by public accountability but do what they perceive they are obliged to and not much more.

7.2 Contribution

This thesis is motivated by the possibility of filling theory-based gaps in corporate responsibility and crisis management scholarship and empirically based gaps in public accountability research. Specifically, there is an apparent shortfall in corporate responsibility theory into the performance of corporate responsibility (Y) as a response to crisis (X). Some studies imply that performance of corporate responsibility is a desired outcome of a crisis, but it is rarely explicitly analysed as such (e.g., Moreno and Kang, 2020; Bachmann, Gillespie and Priem, 2015; Bundy, *et al.,* 2017; James and Wooten, 2006). This research has made progress in bridging this gap by uniquely operationalising ESG measures to examine the extent to which companies become more responsible as a response to crises. This study has also extended research into the ways in which leadership is instrumental in improving corporate responsibility (e.g., Quigley and Hambrick, 2014; Christensen, Morsing and Thyssen, 2013; Aguilera, *et al.,* 2007) by examining the extent to which CEO personal accountability (M) mediates the effect of a crisis on corporate responsibility.

Crisis management scholarship has established a deep body of knowledge surrounding the communication of CSR as a crisis response strategy to manage stakeholder perceptions during a crisis (e.g., Moreno and Kang, 2020; Ham and Kim, 2020; Coombs, 2007), and to repair stakeholder relationships post-crisis (e.g., Gillespie and Dietz, 2009; Coombs and Holladay, 2002). Crises have also been studied as a source of improved knowledge to improve crisis preparation through monitoring and reporting procedures, and training, for example (e.g., Bachmann, Gillespie and Priem, 2015; Kern, Laguecir and Leca, 2013; Haack, *et al.,* 2012). However, researchers appear to stop short of studying if and how the performance of corporate responsibility improves following a crisis. In other words, there is a gap in the literature surrounding the possibility of improved corporate behaviour being a response to crisis *per se*. By analysing changes in ESG measures 12- and 24-months post-crisis to assess change in corporate responsibility this research makes headway in filling that gap.

The thesis is also motivated by empirically based gaps in public accountability research. Scholars of public accountability draw a distinction between unexpected and expected accountability (e.g., Schillemans, 2016). Unexpected accountability triggers a defensive reaction or ‘apology avoidance’ (Hargie, Stapleton and Tourish, 2010). Expected

accountability, on the other hand, is more likely to lead to justification based on prepared answers (Lerner and Tetlock, 1999). In applying public accountability theory to real-world crises, we extend research into unexpected accountability. By providing a novel framework of mechanisms and their effects, this study deepens understanding of the conditions and contexts of public accountability and extends theory to be less about blame and deficits and more about design and how it works (e.g., Bovens and Schillemans, 2014; Olsen, 2014).

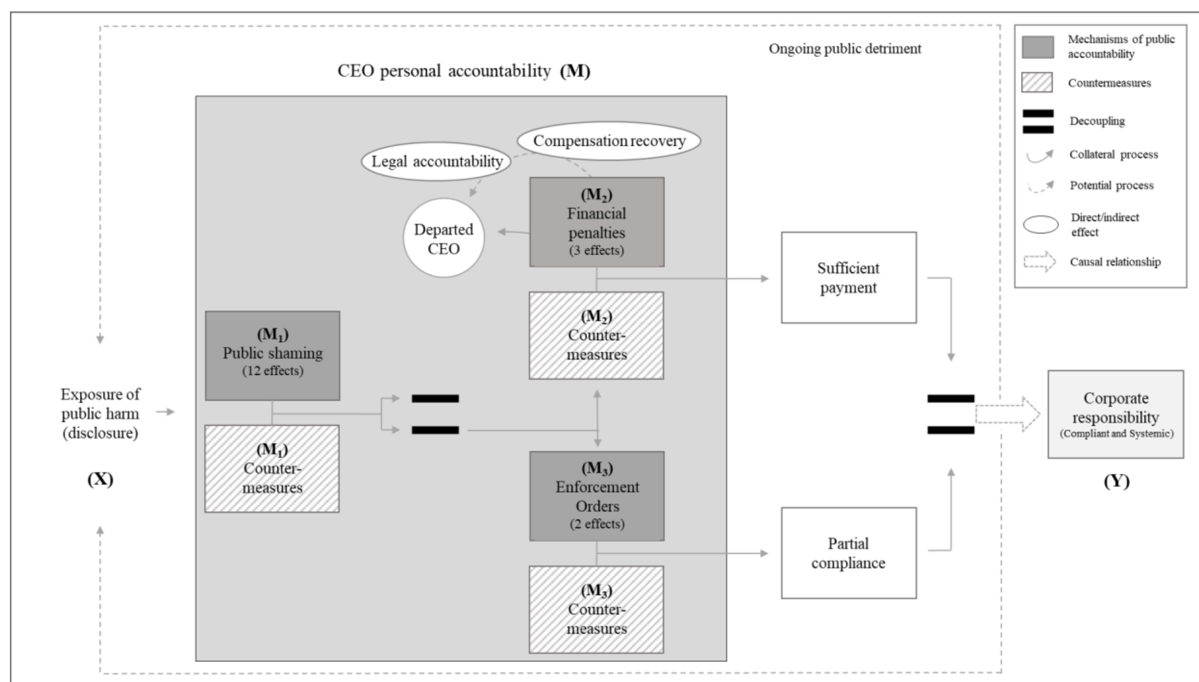
The empirical findings can be generalised (from the evidentiary basis of the specific cases) to a broader population of cases to make a theory-based contribution to corporate responsibility and crisis management research (e.g., Charmaz and Bryant, 2016; Gerring, 2013; Bamberger, 2012). In its primary contribution, this thesis proposes the theory of Accountability Subversion. *The public demand that irresponsible actors are held to account by regulators for causing environmental and social harm. This demand conflicts with normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures. Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. Such countermeasures are commissioned by CEOs and Boards of Directors (elected by shareholders) and developed by an ecosystem of professional service firms including accounting, legal, and public relations consultants. Accountability subversion constrains public accountability, decouples reputational harm from core business operations, and may inadvertently incentivise greenwashing.*

A second theory-based contribution is an analysis of the effects of reputational harm caused by publicly holding CEOs to personally account for a crisis. By examining the effect of reputational harm on 12 mechanisms of public shaming, this thesis extends scholarship which suggests that reputation is not as powerful an incentive as mainstream scholarship – or policymakers – expect. The third theory-based contribution is the thesis' insight into the limited extent of companies' improvements in compliant responsibility, despite legal commitments to comply with regulators directions and recommendations. Each contribution is discussed in turn.

The theory of accountability subversion seeks to explain the paradox that public accountability both facilitates and constrains corporate responsibility. This research has empirically established that crises result in improvements in corporate responsibility to medium levels, and those improvements are facilitated by the process of publicly holding CEOs

to personal account. However, a medium level of corporate responsibility falls short of expectations of an improvement to a high level, i.e., the process of public accountability is found to also constrain the degree of improvement. The key insight is that there is an inherent conflict between society's aim of achieving high corporate responsibility and the *'normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns'*. This inconsistency places companies in a position of being simultaneously accountable to conflicting demands from society. These conflicting demands create a push-pull dynamic which mediates the company-level response. The push from society for high levels of corporate responsibility is undermined by the pull, also from society, for economic interests to take priority over environmental and social concerns. With one hand, CEOs and companies navigate this conflict by improving compliant and systemic responsibility. With the other, *'CEOs subvert their public accountability by using countermeasures'* in favour of economic considerations. The effect of this push-pull contradiction is to constrain corporate responsibility. Figure 7.1. models the theory of accountability subversion and explains how this constraint plays out.

Figure 7.1. Diagram of the theory of Accountability Subversion



Exposure (left hand side) equates to a crisis (X) in the causal logic X → M → Y. The theory extends Schillemans (2013), who identifies a "minimal consensus" on three phases of public accountability: the 'account giving', 'questioning' and 'sanctions' phases (*ibid*, pp.13, 14). 'CEO personal accountability' in the model aligns with two of the three phases of public

accountability theory. The 'account giving' phase of accountability sees each CEO testifying under oath and the 'questioning' phase involves each CEO being questioned by members of Congress. The third stage of public accountability is the 'sanctions' phase, which is aligned with the mechanisms of public accountability, public shaming (M_1), financial penalties (M_2), and enforcement orders (M_3). The effects of public shaming exhibit the notions of blame, punishment, and penalties inherent in the sanctions phase of public accountability (Behn, 2001). *Allocation of responsibility* seeks to apportion blame; *Board oversight*, *employment status, legal status*, and *shareholder turnover* embody punishment; *compensation*, *compensation recovery, legal accountability*, *operating profit*, *sales revenue*, *shareholder value*, and *total shareholder value* entail financial and non-financial penalties in the personal, corporate and shareholder domains.

At this point in the theoretical model (middle of Fig. 7.1.), we observe a bifurcation, a decoupling of personal and corporate accountability. On one track (middle-top), public shaming has turned the CEO into 'damaged goods'; no longer able to fulfil their role as key spokesperson for the company (e.g., Daudigeos, Roulet and Valiorgue, 2018; Coombs, 2007). The termination of tenure and subsequent departure creates separation between the company and the individual (Hearit, 2005). In a separate, collateral process, shareholders typically attempt to remediate financial loss suffered directly by them because of the crisis by penalising CEOs at source. Shareholders can use clawbacks and non-payment of bonus elements of remuneration – these are the basis of the *compensation recovery* effect. In some cases, such as BP, Facebook and VW, shareholders seek damages through civil and (sometimes criminal) lawsuits, which are separate from the process of public accountability and take place years after the crisis – indicated in the model as *legal accountability*, an effect of public shaming.

Back on the main track of the model, Congress proceeds through a series of investigations and further hearings over time to impose a series of financial penalties (middle-top) on companies designed to remediate public harm and reassert public expectations (e.g., Malle, Guglielmo and Monroe, 2012; Duff, 2009). *Corporate fines, corporate penalties,* and *settlements* are the three effects of financial penalties. Fines and penalties are fully paid and additional settlements with customers or government agencies are also settled to the satisfaction of the Courts (middle right). Financial penalties are generally accompanied by conditions and reformative action the company is required to take as part of its settlement with regulators, which is then enforced by Consent Order. In essence, companies are legally committed to paying the fine and complying with the terms of the settlement – measured in

this research as compliant responsibility. Additionally, the mechanism of enforcement orders and its effects – *ordered responses* and *signalled intentions* – aim to reduce the risk of recurrence. Again, these Consent Orders, negotiated between the regulator(s) and the company, legally oblige companies to make management, organisational and process changes to comply. Companies partially comply with enforcement orders by achieving a medium level of compliant responsibility. Empirically, the three mechanisms of public accountability: public shaming, financial penalties and enforcement orders fall short of incentivising companies to high levels of compliant, systemic, and overall responsibility.

The theory of Accountability Subversion offers an explanation: *The public demand that irresponsible actors are held to account by regulators for causing environmental and social harm. This demand conflicts with normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures. Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. Such countermeasures are commissioned by CEOs and Boards of Directors (elected by shareholders) and developed by an ecosystem of professional service firms including accounting, legal, and public relations consultants. Accountability subversion constrains public accountability, decouples reputational harm from core business operations, and may inadvertently incentivise greenwashing.*

The strategic use of countermeasures jointly and individually constrains the efficacy of the mechanisms of public accountability. The accumulated result of each effect being constrained is a decoupling of regulatory *means* and *ends* (right hand side). This decoupling is caused by the inherent conflict between society's aim of achieving high corporate responsibility and its simultaneous prioritisation of money over people and planet. These contradictory demands from society contemporaneously motivate companies to improve compliant and systemic responsibility but also to take *actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders* to constrain their impact. The result is a decoupling of the regulatory *means* of the mechanisms of public shaming, financial penalties, and enforcement orders from the regulatory *end* of high compliant and systemic responsibility. In effect, the decoupling weakens the impact of public accountability to the extent that companies achieve only medium levels of compliant and systemic responsibility, instead of the high level expected. Finally, we see the

returns from the decoupling of regulatory means and ends at the top and bottom of the model. This signifies that the process of public accountability 'tragically' does not incentivise (or compel) sufficient modifications to corporate behaviour to achieve high systemic responsibility; crucially, to the ongoing detriment of the public.

Accountability subversion theorises public accountability as a stable and predominant institutional context which can be deliberately subverted or undermined by companies from within. The existence of formal and informal institutions must be a necessary enabling condition for subversion to occur (Herstein, 2010). In the eyes of the law, companies have the status of personhood (Thompson, 2020) and benefit from the legal protections and privileges society provides (Pistor, 2021). In essence, companies are members of society. It is axiomatic therefore that subversion of public accountability takes place from within society. Schillemans (2013) summarises public accountability as a legitimate claim ex-post an event, whereby one party demands answers from another, with the aim of punishing or penalising irresponsible behaviour. Indeed, the very legitimacy for the concept and practice of public accountability comes from society. According to principal-agent theory, the public are principals in the process of public accountability; they have delegated their authority to the government, and by extension to the regulators, to act as their agent in publicly holding CEOs and companies to account (e.g., Gailmard, 2014; Behn, 2001; Strøm, 2000). The same government pursues economic policy to favour economic interests over the interests of society and the planet. Such a policy is evidenced by CEOs' and Boards of Directors' fiduciary duty to maximise shareholder value (again, MSV) not stakeholder value which includes society-at-large (e.g., Ronnegard and Smith, 2018; Jensen and Meckling, 1976). MSV is widely regarded, but increasingly contested, as a model for "good governance" by investors, managers, lawyers, academics, and regulators (Bower and Paine, 2017, p.51). In short, public accountability places CEOs and companies, as members of society, under contemporaneous, contradictory pressures: the pressure to achieve high levels of corporate responsibility, and the pressure to prioritise economic interests over societal and environmental considerations.

Society's use of public accountability can be characterised as an ethically-based attempt to pressurise CEOs and companies to pursue high levels of corporate responsibility. Accountability subversion conceptualises subversion as companies' use of *'countermeasures'* to deliberately reduce this pressure. Proponents of the ethical view of corporate responsibility argue that the modern corporation has an ethical duty to do the right thing on behalf of society in exchange for the legal protections and privileges it enjoys (from society) (e.g. Pistor, 2021;

Mayer, 2018; Herzig and Moon, 2012). The process of public accountability should compel companies to achieve a high degree of compliant, systemic, and overall responsibility. The ethical view of corporate responsibility does not adequately explain why companies achieve only a medium degree of each type of responsibility. Another view of corporate responsibility takes the ethical notion a step further by arguing that companies and society are co-dependent; companies are reliant on the environment and the public goods that society provides so, it is in companies' enlightened self-interest to look after all stakeholders responsibly (e.g., Carney, 2021; Freeman, Phillips and Sisodia, 2018; Stern, 2011). This co-dependent view of corporate responsibility also fails to explain why high levels of responsibility are not achieved, even in compliant responsibility, which is one of the key aims of the settlement negotiated between companies and regulators.

A third, ethically based view of responsibility is the responsive view. The responsive view of corporate responsibility frames the company as a citizen which (like any citizen) ought to be responsive to the value and ethics of the society(ies) in which it operates (e.g., Pirson and Parmar, 2017; Rivoli and Waddock, 2011; Knippenberg and de Jong, 2010; Mitchell, Agle and Wood, 1997). This view of corporate responsibility would expect society's normative values (heightened in the twenty first century) around climate crises and social inequality to be a driver of high systemic responsibility; again, it is insufficient to explain why only medium levels are achieved. The theory of accountability subversion explains why companies use countermeasures to deliberately subvert the effects of public accountability. This explanation draws on ethical, co-dependent, and responsive views of corporate responsibility and bridges the gaps identified. For example, it is in Boards of Directors' discretion to designate CEOs as 'good' or 'bad' leavers on termination of tenure. In every case, they subverted public accountability in favour of a 'good' leaver designation. This may be because Directors and Company Officers insurance (again, D&O insurance) is contractually provided and typically comes with a "Side A" addition to protect senior executives' personal assets. However, the widespread use of D&O insurance is itself a deliberate measure taken by CEOs and companies to counter-act personal accountability as intended in the law.

The use of countermeasures as theorised in accountability subversion helps to explain why only a medium level of compliant, systemic, and overall responsibility was achieved. The analysis finds the use of a countermeasure(s) in each mechanism of public accountability in each of the five cases. The effect on *allocation of responsibility* was countered by the CEOs diffusion of responsibility among the company's workforce and partners which implicitly

reduces the level of personal responsibility (Koch and Wüstemann, 2014). *Employment status* i.e., termination of employment was countered by resignation (after, and in one case before, being held to account), retirement, and remaining in post. *Legal status* was countered as discussed above. Every departing CEO left as a 'good leaver'. *Legal accountability* was countered by Deferred Prosecution Agreements (again, DPAs), which postpone prosecution until the company can demonstrate improved responsibility and Non-Prosecution Agreements (again, NPAs) negotiated corporately, and in three cases[105] personally, as part of a settlement with regulators. *Compensation* was countered by packages for successors which in all cases were materially unchanged and continue to reward the maximisation of shareholder value to the detriment of other stakeholders. *Compensation recovery* was countered by 'good leaver' status (as discussed above) and by the non-use or weak use of company clawback policies in four cases[106]. *Sales revenue,* which should fall due to reputational damage was countered by marketing activities and communications which mitigated the harm caused (to an average decline of 5.3 percent post-crisis in the following financial year (FY+1) only). For example, not only did Wells Fargo work with lobby consultants during the crisis period, but the Board of Directors also hired their own separate lobbying firm. BP famously turned their clean-up operations in coastal areas into an international advertising campaign. *Operating profits* were countered by accounting methods and the treatment of fines and penalties as 'special items' in the annual SEC filings.

Shareholder value was countered by projecting future cash flows i.e., facilitating investors to evaluate companies' continuing ability to generate revenue into the future. *Total shareholder return* was in part countered by the companies' use of share buybacks and dividend policies which were adjusted to compensate shareholders for short-term loss or incentivise them to retain their position. *Shareholder turnover* was countered by block votes in which the top three or four shareholders control most of the voting rights and therefore company direction[107]. Zuckerberg (Facebook) personally continues to own over 60 percent of voting rights[108]. VW's three largest shareholders still control 89 percent of the voting rights. In

[105] Stumpf (Wells Fargo), Winterkorn (VW) and Diess (VW).
[106] Winterkorn (VW), Stumpf (Wells Fargo) and his successor Sloan (Wells Fargo) and Smith (Equifax).
[107] The private sector owns 86 percent of global equity in the world's 41,000 publicly listed companies, the public sector owns 14 percent. Together these companies are valued at $80 trillion equivalent to global GDP (again Gross Domestic Product). In over 20,000 of these companies the three largest shareholders own 50 percent of the capital; and in 30,000 companies the top three shareholders own more than 30 percent of the equity (De La Cruz, Medina and Tang, 2019).
[108] Facebook shares are issued in two classes of Common stock. Holders of Class A shares are entitled to one vote. Holders of Class B are entitled to 10 votes.

Wells Fargo and Equifax, the three largest shareholders held over 20 percent of the equity, whilst in BP it was over 12 percent at the time. *Board oversight* was countered by no substantive change to Board Directors' compensation or duties post-crisis and the election of Directors who continue to support MSV in every case. *Corporate fines* were countered by the fact that the quantum of record fines in three cases[109], even when combined with *corporate penalties* and *settlements,* relative to the size of the business, amounted to little more than the cost of doing business. *Ordered responses* are countered by business power – defined by Culpepper (2012) as managerial expertise, relative to the expertise of policymakers and other influence groups – which is deployed in the negotiation of Consent Orders between companies and regulators. *Signalled intentions* can be countered by greenwashing.

Accountability subversion theorises that CEOs and *companies 'use countermeasures to subvert their public accountability*'. Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. The use of countermeasures is an attempt to reconcile conflicting public demands that irresponsible actors are held to account by regulators for causing environmental and social harm; but also prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures.

Corporate responsibility has been viewed as a choice, open to decision-makers after profit has been maximised and only if it serves further maximisation (e.g., Ronnegard and Smith, 2018; Jensen and Meckling, 1976; Friedman, 1970). This is the prevailing view and logic of our society's economic system despite the ongoing debate between shareholder and stakeholder capitalism. It is axiomatic that if profit is to be maximised for shareholders, it must be minimised for other stakeholders. This prioritisation of shareholder value can be expected to lead to a low manifestation of compliant, systemic, and overall responsibility (i.e., 25 percent or less). The MSV view of corporate responsibility does not explain the empirical findings of a medium level of each of compliant, systemic, and overall responsibility. The analysis finds a negligible relationship ($r = -0.052$) between financial penalties and compliant responsibility. This is surprising because financial fines and penalties are typically accompanied by reformative actions mutually agreed with regulators and enforced by Consent Orders in DPAs. In other words, they are legally binding commitments

[109] BP, Facebook and VW.

made by the CEO and Board of Directors. These legal obligations may explain the higher-than-expected medium level of corporate responsibility. In summary, the MSV view of corporate responsibility is unable to sufficiently explain the findings.

In another view of corporate responsibility, responsible behaviour is analysed as an input to financial performance (e.g., Quentin and Campling, 2017; Khan, Serafeim and Yoon, 2016; Friede, Busch and Bassen, 2015). Financial performance is typically measured by profit (e.g., Boesso, Favotto and Michelon, 2014; Eccles and Serafeim, 2014) and market value (e.g., Ioannou and Serafeim, 2019). The consensus is that firms with superior CSR performance are likely to have cheaper and easier access to capital and on better terms than their lower performing peers (e.g., Amel-Zadeh and Serafeim, 2018; Cheng, Ioannou and Serafeim, 2013). Dissenters offer alternative explanations for the relationships between ESG ratings and financial performance. For example, Bruno, Esakia and Goltz (2021) argue that ratings vary between companies for structural reasons (e.g., the technology sector emits relatively less CO2e and therefore benefits from relatively higher ratings). Others doubt a causal link with financial performance *per se* (e.g., Halbritter and Dorfleitner, 2015). Hawn and Ioannou (2016) y POVexamine internal performance and external reporting of corporate behaviour and link a gap to financial performance. Their work[110] codes various measures of responsibility as being either internal or external and correlates these reported actions to company value and a series of control variables to test company- and fixed-year effects. They find that external stakeholders (such as investment analysts) are likely to be suspicious of a gap between internal and external actions and assume that the company is hiding something, which is subsequently reflected in the stock price and a lower market value of the company. After being publicly held to account, it is in CEOs and Boards of Directors' interests to achieve high levels of systemic responsibility internally and to fully disclose improvements externally if they are to fulfil their fiduciary duty of MSV, and in the case of CEOs, to maximise personal compensation. The potential of a link between corporate responsibility and profit and/or value is expected to be fundamentally motivating to individuals, companies, and shareholders[111]. The input view of

[110] Hawn and Ioannou's sample is drawn from the Thomson Reuters ASSET4 database – a forerunner of the Refinitiv Eikon database used in this study.

[111] In a further extension, the novel analytic framework developed and operationalised in this thesis also expands internal and external actions to the personal, corporate and stakeholder domains. In the personal domain: the mechanisms of *allocation of responsibility*, *compensation*, *employment status*, *legal accountability*, and *legal status*. In the corporate domain the mechanisms of *operating profit* and *sales revenue*. In the shareholder domain the mechanisms of *board oversight*, *shareholder turnover*, *shareholder value*, and *total shareholder return* which may be a fruitful foundation for ongoing research into the link between (ir)responsible behaviour and financial performance.

corporate responsibility can reasonably be expected to infer that companies would seek high levels of corporate responsibility to enhance their profitability and market value. Like the MSV view of corporate responsibility however, the input view is insufficient to explain this study's findings.

Leading edge scholarship is concerned with the "systemic constraints" of shareholder capitalism and the implications for corporate responsibility from the companies' perspective and society's perspective (de Bakker, *et al.*, 2020, p.1297). Schneider (2020) suggests that the "pathologies" of corporate responsibility are "symptoms" of shareholder capitalism on the organisational and individual level (*ibid*, p.1305). His research suggests three inter-connected pathologies, or ways, in which CSR functions. Firstly, as a mode of market expansion in which the concerns and needs of stakeholders are reframed and aligned with the company agenda and, by implication, the agenda of maximising shareholder value (Rajak, 2011). Secondly, CSR is a means of extending the reach of MSV as it is presented as being capable of reform and incorporating wider stakeholder and environmental needs as they evolve. The recent announcement of stakeholder capitalism as an evolution of shareholder capitalism is a good example (Business Roundtable, 2019). Thirdly, CSR legitimises some of the company's activities, while diverting attention from irresponsible behaviour (Ramaswamy, 2021; Gatti, Seele and Rademacher, 2019; Gillespie, 2008). These modes of corporate responsibility at the level of the firm are effects of the dynamics of shareholder value at the system level. The theory of accountability subversion extends Schneider (2020) by examining the systemic effects of the social system on mechanisms of public accountability in motivating corporate responsibility on the organisational and individual level.

Specifically, accountability subversion extends Schneider (2020) by conceptualising corporate responsibility (Y) in its current conception as endogenous to society and by extension to shareholder capitalism (X). This endogeneity can lead to a spurious correlation or, what Pearl and Mackenzie (2019) call, a 'fork' (i.e., X ← M → Y), a negative correlation or 'collider' (i.e., X → M ← Y), or be an unknown third variable (Z) or 'confounder' (e.g., X → M → (Z) → Y). In such cases, causal variables and/or paths may be omitted, causing errors in measurement and/or negative or positive bias which undermines any causal claims (Hill, *et al.*, 2020). Accountability subversion identifies society's priority (Z) (describing it as *'normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns'*) as a confounding variable which has a negative effect on corporate responsibility. In other words, society's priority underestimates or retards the

effect of crises on corporate responsibility as evidenced by the achievement of only medium levels of each of compliant, systemic and overall responsibility.

CEO compensation provides a good illustration of the effect of systemic shareholder capitalism at the level of the individual. Shareholders (as principals) keen to maximise the returns on their investment, incentivise the CEO (their agent) via performance pay schemes, generally in the form of equity-based incentives (Crossland and Chen, 2013; Jensen and Meckling, 1976). The system effect on corporate responsibility causes a low manifestation of compensation in every case (i.e., compensation (M) collides with the public interest in the causal chain $X \rightarrow M \leftarrow Y$). In another empirical illustration of the effect of MSV on the company, this research finds that Board Directors' focus on MSV is unaltered by public accountability; they are not incentivised to increase oversight of the CEO, and/or to seek higher levels of systemic responsibility in the company's operations. The empirical findings recognise the limiting effects of endogeneity as a possible explanation for why public shaming, as a mechanism of public accountability, achieves corporate responsibility only to a medium extent.

A second theory-based contribution is in developing analytic tools to explain why the effects of reputational harm, caused by publicly holding CEOs to personally account for a crisis, is not as powerful as expected. Accountability subversion helps to explain how reputational harm is not as powerful an incentive to high levels of systemic responsibility as scholars expect. Being publicly shamed and found to be responsible for a crisis can be expected to carry disproportionate reputational cost to the CEO personally (e.g., Moore, 2014; Malle, Guglielmo and Monroe, 2012), to the company (e.g., Coombs 2020; Bhattacharya and Sen, 2004; Weaver, 1986) and to shareholders (e.g., Armour, Mayer and Polo, 2017). Specifically, reputational harm is anticipated to: result in CEO dismissal (e.g., Chiu and Sharfman, 2016; Crossland and Chen, 2011); restrict a company's ability to gain sales revenues (e.g., Weber, *et al.,* 2021; Olson, 2013; Du, Bhattachary and Sen, 2010; Bhattacharya and Sen, 2004) and operating profit (e.g., Mittelbach-Hoermanseder, Hummel and Rammerstorfer, 2019); lose shareholder value and support (e.g. Ioannou and Serafeim, 2014; Karpoff, *et al*., 2008) and improve Board oversight (e.g. Rivoli and Waddock, 2011; Hung, 2011). All this research anticipates a high level of each of compliant, systemic, and overall responsibility and cannot satisfactorily explain the empirical findings.

By conceptualising companies' use of countermeasures to subvert public accountability, this study benefits from and extends the work of scholars who have found that irresponsible behaviour is not associated with reputational penalties (e.g., Jackson and

Brammer, 2014; Zavyalova, 2014). Jackson and Brammer (2014) found the apparent paradox of companies that enjoy some of the best reputations for responsibility[112] and simultaneously have the highest levels of corporate irresponsibility[113]. They also found that in the year following irresponsible behaviour (equivalent to CP+1 in this study), such firms experienced the lowest year-on-year declines in reputation of the firms studied. In other words, their analysis suggests that irresponsible behaviour is not necessarily associated with reputational penalties. This study extends scholarship into what Jackson and Brammer (2014) call the 'grey areas' of corporate reputation by identifying twelve effects of public shaming that scholars would expect to result in reputational harm – especially to companies responsible for some of the largest corporate crises in the period 2010-2019. Public shaming (M_1) is the mechanism of public accountability most associated with reputational harm (Fig.7). Accountability subversion theorises that companies strategically take countermeasures to each effect of public shaming to deliberately subvert their public accountability and thus to minimise the reputational harm caused (as discussed above).

In so doing, accountability subversion also draws from and contributes to crisis management scholarship. Accountability subversion conceptualises that companies' application of crisis management theory to limit and repair reputational damage is itself a countermeasure, constraining the effect of public accountability in motivating high levels of systemic responsibility. Much of crisis management literature is pre-occupied with reputational repair post-crisis (Coombs and Holladay, 2015). One of the central aims of the theory and practice of crisis management is to minimise loss of reputation both at product- and firm-level and to rebuild as swiftly as feasible (e.g., Arthur W. Page Society and Business Roundtable Institute for Corporate Ethics, 2009; Davies, *et al.,* 2003; Mitroff, Pearson and Harrington, 1996). The aim is to increase presence in the public consciousness, manage brand and company image and regain trust to repair reputational harm caused (e.g., Chalmers and van den Broek, 2019; Gillespie and Priem, 2015; Gillespie and Dietz, 2009; Coombs and Holladay, 2002). According to Mitroff and Alpaslan (2003) 'crisis prepared' companies perform better financially (using stock market return on assets as an indicator of good management) and remain in business longer than what they term 'crisis prone' companies (so named because they have prepared only to the point where costs of preparation are traded-off against perceived losses). Such scholarship builds an expectation that companies, when faced with reputational

[112] As measured by Fortune Magazine's 'World's Most Admired Companies' reputation index.
[113] As measured by the KLD database of corporate responsibility.

loss because of being publicly held to account for a crisis, will seek to communicate the highest possible level of responsibility. However, while drawing gratefully on this literature, this study finds that high levels of systemic responsibility are not disclosed by companies – a result which cannot be explained by reputational repair scholarship.

Accountability subversion's insight into the conflicting demands society makes on companies in the process of public accountability offers an explanation as to why companies report only medium levels of systemic responsibility. The inherent conflict constrains the effect of public accountability as a motivator of high systemic responsibility. Companies seeking to repair reputational damage are pushed by society (i.e., by the proponents of stakeholder capitalism) towards high levels of systemic responsibility; and at the same time are also pulled by society (i.e., by the proponents of shareholder capitalism) back towards MSV and the habitual placing of money before people and planet. The result of this push-pull dynamic is a medium level of systemic responsibility. The distinction made between compliant and systemic responsibility as an outcome supports evidence that learning from crises can be narrow rather than broad-based (Haunschild, Polidoro and Chandler, 2015). Empirically, only a medium level of systemic responsibility was reported overall (43 percent) by companies 24 months ex-post[114] the crisis instead of the high manifestation expected. Each company also reports a medium level of systemic responsibility. By comparison, compliant responsibility was found to be at a higher level overall (53 percent) – although still only at a medium, rather than high, level. The constrained effect of public accountability theorised by accountability subversion extends research that examines the limits on organisational learning from unexpected events (e.g., Lampel, Shamsie and Shapira, 2009) and deepens understanding of how lessons are not learnt from one-off or even recurring, similar events and instead are overcome from pressure to return to MSV and business-as-usual (Veil, 2011).

The third theory-based contribution is the thesis' insight into the extent of companies' improvements in systemic responsibility, despite legal commitments. Accountability subversion theorises that public accountability may have an unintended consequence of motivating greenwashing. Researching corporate crime in the US, Lund and Sarin (2020) overcome the limitation of the lack of readily available data by creating a novel dataset[115] to

[114] Changes in systemic responsibility detail the year-on-year change reported during the crisis period through to 24 months ex-post (CP+2). The denominator (the number of possible reporting opportunities) is dependent on the duration of each crisis.
[115] Lund and Sarin (2020) create a novel dataset of corporate crime from three sources: the Financial Crimes Enforcement Network (FinCEN) Suspicious Activity Reports (SARs), consumer complaints made to the

reveal two critical insights. First, large companies are more likely to reoffend than smaller companies (corporate crimes committed by recidivist companies increased from 7 percent in 2010 to 50 percent in 2015). Second, regulators levied more lenient fines for repeat offenders. In short, larger companies are more likely to be repeat offenders and the penalties they incur are more lenient over time. Reoffending may be explained by unintentional decoupling between policy and practices driven by weak diffusion, narrative and training (e.g., Hengst, *et al.*, 2019; Haack, *et al.,* 2012); or by middle-managers ignoring new practices, procedures and tools and continuing with business-as-usual (Kern, Laguecir and Leca, 2013). Conversely, decoupling may be intentional where Boards of Directors and CEOs remain primarily motivated by MSV and do not pursue even the reformative actions they have negotiated; or it maybe they do 'enough' to achieve a medium level of compliant responsibility but no more.

Deeper analysis of the empirical findings reveals that financial penalties have a very strong relationship with systemic (rather than compliant) responsibility ($r = 0.804$). This finding challenges Lund and Sarin's suggestion that irresponsible behaviour is more profitable than responsible behaviour (as indicated by reoffending rates) and so continues-as-usual despite financial penalties. It is interesting to speculate whether the very strong relationship between corporate fines, corporate penalties, and settlements and systemic responsibility found in this research is due to financial effects, or legally binding commitments made as part of the settlement negotiated between companies and regulators, or both. Or there is some other explanation? Intuitively, a fine or penalty is an exogenous shock to the profit and loss account. Contributing directly or indirectly to profit is a goal of all strategy, policies, and practices in a business (Jensen and Meckling, 1976). When the system of profit production receives the unexpected shock (i.e., costs) of a corporate fine, it can reasonably be expected to become more systemically responsible to avoid a risk of recurrence (of the fine). This could explain the improvement in systemic responsibility to a medium level.

Another explanation is that (some) managers and employees want to make amends for the public harm caused and may consciously or unconsciously respond by adjusting practices and procedures to become more responsible in core operations. For example, Petriglieri (2015) interviewed 36 BP executives in November 2010, six months after the explosion on the Deepwater Horizon offshore oil rig. Her study found that managers either re- or de-identified with the company following the crisis. Those that de-identified left. Those that reidentified

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Consumer Financial Protection Bureau (CFPB), and whistle-blower complaints made to the Securities and Exchange Commission (SEC).

repaired their relationship with BP partly through working on the company's response, clean-up efforts, and new policies and practices. Essentially, managers and employees embark on a formal or informal process of what this author terms 'putting it right'. By finding the strong correlation between financial penalties and systemic responsibility this study poses a question for researchers: is 'putting it right' – in an inverse echo of 'muddling through' (Crilly, Zollo and Hansen, 2012) – a form of recoupling practices with normative expectations of corporate responsibility that have been reasserted by the process of public accountability?

The final explanation for the empirical relationship between financial penalties and systemic responsibility is that companies instrumentally use disclosures of responsibility and may in fact, be greenwashing. Information about a company's responsibility is asymmetrical. At least some people in the company, likely including the CEO, know the reality of firm performance on social and environmental issues, while people on the outside can only know what they are told by the company (Hall and Ioannou, 2016). Such an asymmetry of information makes greenwashing possible. It creates the possibility of a deliberate use of selective information, exaggeration and/or omission by companies to mislead customers, investors and partners to "wash" the company's reporting of responsibility to appear more positive than they are (Gatti, Seele and Rademacher, 2019). Delmas and Burbano (2011) note that current greenwashing regulation only covers miscommunication about product or service environmental performance (such as VW's false claims about NO_x emissions, for example); there is weak regulation for miscommunicating corporate responsibility *per se*. One of the contributions of this thesis is in advancing methodologies for studying what firms disclose they have done rather than what they say they will do.

By theorising society's contradictory demands on CEOs (high responsibility and a prioritisation of economic interests), accountability subversion offers an explanation as to why financial penalties have a strong relationship with systemic performance. Specifically, this study extends research regarding ESG disclosures. Researchers find an instrumental view of ESG disclosure by CEOs in non-financial companies listed on the German Prime Standard[116] between 2010 and 2018 (Velte, 2019) and in 350 FTSE listed firms between 2004 and 2013 (Li, *et al.*, 2018). In other words, CEOs have been found to instrumentally use ESG disclosures in the expectation that they will be rewarded by the financial markets with a higher firm valuation. The process of public accountability demands that companies continue to maximise

[116] The German Prime Standard is made up of the following stock indices: DAX30, TecDAX, MDAX, SDAX.

value for shareholders (at the expense of other stakeholders and the planet) and simultaneously achieve high levels of responsibility. Empirically, financial penalties drive a strong motivation to systemic responsibility and a negligible relationship with compliant responsibility[117]. Systemic responsibility is measured in this thesis using a unique panel of 27 ESG indicators designed to align with a framework developed under the auspices of the World Economic Forum (WEF)[118], the most high profile (Tett, *et al.,* 2021) and adopted initiative to standardise ESG reporting (Hillyer, 2021). The WEF framework, and by extension the unique panel of ESG measures can reasonably be expected to reflect best practice and society's expectations of corporate responsibility (at the time of writing). Accountability subversion theorises that CEOs may instrumentally use ESG disclosures as a countermeasure to public accountability. If the disclosures are greenwashing, CEOs and their companies would be seen to have been held to public account by improving systemic responsibility as society demands, while simultaneously also meeting their fiduciary duty and society's contradictory demand for economic interests to trump societal and environmental concerns. The new analytical tools extend the literature on the relationship between financial penalties as a direct effect of public accountability and systemic corporate responsibility.

7.3 Conclusion

In conclusion, this thesis makes three theory-based contributions. The major contribution is the theory of accountability subversion. Accountability subversion theorises public accountability as a stable and predominant institutional context which is deliberately subverted by companies from within – a necessary condition of subversion. The theory conceptualises subversion as companies' use of countermeasures to deliberately reduce this pressure and subvert public accountability. The compulsion for companies ironically, and tragically, comes from society's contradictory demands of companies to be simultaneously accountable to high levels of responsible behaviour and the placement of money before people and planet. In its second theory-based contribution, accountability subversion explains how reputational harm is not as powerful an incentive to high levels of systemic responsibility as scholars expect. The theory explains how companies' application of crisis management theory to limit and repair reputational damage is itself a countermeasure, constraining the effect of

[117] A negligible relationship between financial penalties and compliant responsibility is indicated by a negative correlation ($r = -0.052$). By comparison a strong relationship between financial penalties and systemic responsibility is indicated by the very strong positive correlation ($r = 0.745$).
[118] The World Economic Forum is the International Organization for Public-Private Cooperation. The framework is titled 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'.

public accountability in motivating high levels of systemic responsibility. Lastly, the third theory-based contribution of accountability subversion theorises that public accountability may be an inadvertent motivation for greenwashing of ESG disclosures.

Empirically, this thesis provides original investigations into publicly holding CEOs to personally account for crises which had not been previously examined by public accountability scholars. To contribute to the analysis of this under-researched area, this research has systematically developed, justified, and mapped the mechanisms of public accountability in a novel framework. This framework has conceptualised mechanisms of public accountability (public shaming, financial penalties and enforcement orders) and delineated the direct and indirect effects of each mechanism. For the mechanism of public shaming, the effects have been further delineated into relevant domains (personal, corporate and shareholder). The framework can be used by researchers to examine any casual relationships – X → M → Y – where public accountability is a mediating variable. The theory of accountability subversion also contributes by alerting scholars to the effect of countermeasures which may introduce negative confounding bias.

A review of public accountability theory identifies four lines of thought; the novel analytic framework developed in this thesis has implications for each. The first line of thinking about accountability frames it as 'command and control'. This is typically generic and repetitive, with one size applied to all circumstances. The accountors rely heavily on sanctions and compliance; the accountees often view such a regime as heavy-handed and over-burdensome (e.g., Hood, *et al.*, 2004). The framework extends knowledge of how and to what extent sanctions work by detailing the manifestation of each direct and indirect effect of public accountability at one of three levels: low, medium and high. The second line of thought explores how accountability is contingent. Scholars have explored whether the nature of accountability is focused on process or outcomes (Patil, Vieder and Tetlock, 2014); whether it is expected or unexpected (Lerner and Tetlock, 1999); and whether the forum for the exercise of accountability (in this study, Congress) is the owner of the standards or not (Schillemans, 2013). By examining crises, the framework offers insights into unexpected accountability as the most explanatory mediating variable. The framework also points to the separation of ownership of the mechanisms of public accountability between Congress and its agencies and regulators. Members of Congress conduct the hearings; the settlement between the government and the company is negotiated separately and in private. Over a dozen agencies and regulators were involved in the five cases each ending in a negotiated settlement

enforced by Consent Order. This separation can be characterised as a form of decoupling inherent in public accountability.

The third line of thought in public accountability literature conceptualises the need for more trust-based accountability based on collective actions (e.g., Mansbridge, 2014). The framework deepens research into co-operative accountability by facilitating the identification of the effect of negotiated settlements between regulators and companies on compliant and systemic responsibility. Specifically, examining the effects of enforcement orders on compliant and systemic responsibility points to the need for greater transparency of the negotiations between regulators and companies if high levels of corporate responsibility are desired. Managerial expertise, relative to the expertise of policymakers and other influence groups, is most powerful when exercised in scenarios that are focused on issues which have low saliency with the public and in which informal institutions and processes are used to determine policy (Culpepper, 2012). The negotiations between regulators and companies to settle public accountability take place in private, quietly, and out of the public gaze – precisely the conditions in which management expertise is most influential and powerful. By detailing the effects of public accountability on compliant and systemic responsibility, the analysis demonstrates the effect of management power as a counter measure and contributes to research into trust-based accountability. Lastly, the framework contributes to the fourth line of thought in public accountability theory – its design. By modelling the mechanisms and effects of public accountability in the specific circumstances of each crisis, the framework contributes to research into how public accountability works. It stimulates questions and provides a methodological basis for further research into what type of sanctions are appropriate, in what context and under which circumstances. Accountability subversion theory reminds researchers to also test for the effect of *'the use of countermeasures'* as potential negatively confounding variables. The final chapter sets out the implications of this research for policymakers, discusses the study's limitations and opportunities for future research, and makes four policy recommendations before concluding the thesis.

8. Conclusion

Despite repeated warnings and mounting evidence of a climate crisis, we as members of societies, businesses and governments continue to irrationally discount our future (IPCC, 2022). We watch as social inequalities continue to widen (UNDP, 2019), the shortfall of record philanthropy in compensating for the net negative impacts of business on society and the environment grows (Giving USA, 2019), and governments ability to tackle the challenges reduces (e.g., Scherrer and Palazzo, 2011; Matten and Crane, 2005). This concluding chapter sets out why corporate responsibility matters now more than ever (section 1), outlines this study's implications for policy (section 2), discusses the limitations of this research and opportunities for further research (section 3), makes four policy recommendations (section 4), before concluding (section 5).

8.1. Why does corporate responsibility matter now?

The Stern review (2011) for the British Government on 'The Economics of Climate Change' described the climate crisis and its associated ecological impact as the greatest market failure of all time (Stern, 2011). Since the report was first issued in 2006, the crisis has escalated. The Intergovernmental Panel on Climate Change (IPCC) reported (2018) the difference between the impact on human and natural systems of a rise in global warming of 1.5°C and 2.0°C. The report concluded with a high degree of confidence that global warming could reach 1.5°C by 2030, and "the time to act is rapidly closing" (IPCC, 2018). In parallel, the Global Wealth Report (Credit Suisse, 2016) reported the continuing rise in wealth inequality globally, as measured by the share of the wealthiest one percent and wealthiest 10 percent of adults compared to the rest of the world's adult population. The top one percent now own 50 percent of the world's wealth (Credit Suisse, 2016, p.2). More strikingly, the bottom 50 percent of the world's population, some four billion people, own less than one percent of the world's wealth (*ibid,* 2016, p.2). The wealthiest top 10 percent own 89 percent of global assets (*ibid,* 2016, p.2). In its influential 'Humanity Divided' report, UNDP (2013) characterised inequality as the central economic and social development issue. The report noted that "high inequality undermines development by hindering economic progress, weakening democratic life and threatening social cohesion" (*ibid*, p.3). The report details how levels of inequality of wealth and income drive inequality of outcomes in other non-financial measures of wellbeing like health and education. Corporate responsibility is urgently expected to help correct these market failures (Mayer, 2018).

Milton Friedman (1970) argued that it is a company's job to maximise profits and value for its shareholders. Then, if management wants to help society or the environment, they can decide to spend some retained profits on philanthropy if they believe it will enhance the value of the firm in the long-term. Giving USA is the body that reports on philanthropic spending in the US. In 2017, it reported that spending was at an all-time high of $410 billion (adjusted for inflation). Corporations gave five percent of the total and foundations, which include both corporate and private donors, gave a further 16 percent. It can be estimated that at best corporate philanthropy accounts for about 20 percent of the total donations to foundations in the US. The report noted that the S&P 500 stock market index grew 16.9 percent in inflation-adjusted dollars between 2016 and 2017 to $2.7 trillion, compared to a three percent increase in philanthropic giving in the same period. It is unlikely that philanthropy can compensate for the impacts of business on society and the environment (if they are a net negative) without greater systemic corporate responsibility (Henderson, 2020).

Scholars, and proponents of shareholder capitalism, also argue that it is the government's job, not companies' job, to pay for the cost of environmental and societal damage (e.g., Ronnegard and Smith, 2018; Karnani, 2011). The scale and complexity of current challenges outstrip Governments' ability to cope, not least because of falling tax revenues from the corporate sector. The US Department of the Treasury showed that corporate income tax receipts fell by 31 percent between 2017 and 2018, and they expect, "diminished corporate tax revenues in the years to come". Falling tax revenues limit governments' ability to tackle environmental challenges and to continue funding public services such as education, transport, and national security. The Global Steering Group for Impact Investment summit (2017) estimated spending by OECD governments to be around 20 percent of GDP, more than $10 trillion, on social issues annually – which "is not enough, nor could it ever be" (Cohen, 2017). The claims of socially responsible investing are that capital can be used to achieve direct beneficial outcomes for society and to encourage greater corporate responsibility generally, primarily through a focus on ESG investing i.e., linking a company's access to capital to the company's environmental, social and governance impact (e.g., Ioannou and Serafeim, 2019).

Institutional investors, such as pension and investment funds, represent numerous individual investors who are demanding that their personal investment has a positive impact on society and the environment (e.g., Ioannou and Serafeim, 2014). Institutional investors now commonly invest through passive index funds which own equity in each company listed on an individual stock market (Refinitiv, 2020). Owning shares representing the entire universe of a

stock market restricts the traditional role of institutional investors (in not being able to sell that individual holding) but, in being forced by the rules of the fund to hold the stock, their potential influence on company managers to encourage more responsible behaviour is increased (Bugg-Levine and Emerson, 2013). Investing in companies via ESG funds offers their investors the possibility of a triple benefit: positive impact investment (e.g., Cohen, 2017), increased financial returns (e.g., Ioannou and Serafeim, 2019; Quentin and Campling, 2017; Khan, Serafeim and Yoon, 2016; Friede, Busch and Bassen, 2015) and via more responsible business operations which mitigate risk, the possibility of averting an endogenous crisis (e.g., Herzig and Moon, 2012).

Proponents of stakeholder capitalism argue that private sector companies create the wealth and have the capacity to help solve the problems the world faces on the scale required. Philanthropy can be turned off as easily as it was turned on; governments don't have money *per se* - they either print it, borrow it, or raise it from taxes (and theoretically there are limits to all three). The scale, capabilities and reach of MNCs (Morsing and Spence, 2019) and the necessity of greater corporate responsibility is explicitly recognised by the world's governments in Goal 17 of the Sustainable Development Goals (again, SDGs) which calls for deeper partnership between the private sector, government, and civic society if the other sixteen goals are to be met (UN, 2015). The SDGs are one of a multiplicity of 'meta-governance networks' which have emerged – such as the Paris Climate Accord, the World Bank and OECD – seeking to manage the impacts of MNCs and business generally (Albareda and Waddock, 2016).

Another example is new European Union regulations (EU 2014/95), which came into effect in 2018, requiring public interest companies with 500+ employees to report (using financial and non-financial information) on how they manage their social and environmental impacts. In April 2021, the Sustainable Finance Disclosure Regulation[119] (SFDR) came into force, introducing ESG disclosure standards for financial market participants, advisers, and products. The stated aim of SFDR is to reduce (and eliminate) 'greenwashing' by ensuring that investors disclose (from January 2022) the type of reliable and comparable information on social and environmental impacts in their investment and lending chains that other stakeholders require (and expect) to make informed decisions. In parallel, the Corporate Sustainability Reporting Directive (CSRD) introduces mandatory reporting standards for all companies listed

[119] Sustainable Finance Disclosure Regulation (EU 2019/2088).

on public stock exchanges (except listed micro-enterprises) and to all large public interest companies (European Commission, 2021). The CSRD extends non-financial reporting standards to nearly 50,000 companies in the EU by 2027 compared to the 11,000 that are subject to the current requirements (European Council, 2022). Both the SFRD and CSRD make it mandatory for companies affected to report on a classification system of environmentally sustainable economic activities called the EU Taxonomy (EUT). The EUT came into force on 12 July 2020 and was updated on 24 June 2022. It consists of 21 metrics covering 6 environmental and social objectives[120]. The EUT aims to create a standard which,

> *"...should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed"* (European Commission, 2020).

One effect of these EU and similar initiatives[121] is to grow the popularity of ESG as the focus of corporate responsibility as illustrated in Appendix I.

However, the efforts of these multilateral agencies to govern MNCs and to encourage greater corporate responsibility have been made more complex over the past 20 years in part by the emergence of what is known as global value chains (GVCs) (Ponte, 2019). The production and distribution processes of MNCs has become systematically fragmented and geographically dispersed in GVCs. Typically, these GVCs are themselves governed by MNCs who co-ordinate a multiplicity of suppliers and sub-suppliers to generate and capture economic value (Gereffi, 2014). GVCs have "become the world economy's backbone and central nervous system" (Cattaneo, Gereffi and Staritz, 2011, p.7) and they compromise corporate responsibility in two ways. Firstly, GVCs make it more complex and difficult for the meta-governance networks to govern MNC operations. MNCs operate in multiple countries and legal jurisdictions. With no one jurisdiction having authority over another, MNCs have the capacity to operate a type of legal arbitrage, playing one set of laws off against another to their advantage (Ruggie, 2018). Secondly, companies' ability to comply with regulations, codes of conduct,

[120] Climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

[121] Similar initiatives are enacted by national governments, for example Article 173, made France the first country to introduce a law encouraging an estimated 840 asset owners to voluntarily integrate climate risk and environmental and social dimensions in their public disclosures from 2017. In 2018, a new UK Corporate Governance Code, in Provision 1, calls for disclosure of the sustainability of the company's business model in annual reports.

standards, best practices, and principles is complicated by the length and complexity of the GVCs that they themselves have created (Ponte, 2019).

In summary, there appears to be an urgent need for high levels of corporate responsibility in the public interest as the world faces a climate crisis and ecological disaster (IPCC, 2022, 2018), widening social inequalities (UNDP, 2019, 2013), the shortfall of even record philanthropy (Giving USA, 2019), governments' reduced ability to tackle the challenges (Scherrer and Palazzo, 2011) and increased calls for partnership between business, governments and civic society (Albareda and Waddock, 2016; UN, 2015). We require coordinated and simultaneous behavioural change by all actors to affect the scale and synchronicity of the actions needed to meet the challenges we face. Such change is not conducive to the short-term time horizons of personal gain, shareholder capitalism or democratic politics. We are conflicted. Accountability subversion characterises this conflict as a push-pull dynamic. The push from society for high levels of corporate responsibility is simultaneously undermined by the pull, also from society, for companies to maintain their contribution to continuous economic growth[122]. The looming climate crisis is compelling over forty regional and national governments to introduce new regulation designed to motivate high levels of corporate responsibility, just at a time when corporate irresponsibility is increasing, and public accountability is declining.

In his paper, 'Just how unethical is American business?' Clement (2006), reminds us that forty companies in the Fortune 100 were found by regulators to have committed accounting, securities, and/or consumer fraud, discriminatory practices, undisclosed executive pay, antitrust activities, patent infringement and other violations of the law between 2000 and 2005[123]. The analysis found that fourteen companies had been fined over $1 billion or more; thirteen companies had paid fines of $100m to $999m; and the remaining thirteen companies had been found guilty of unethical behaviour and paid smaller fines. Garrett (2014) reminds us that aggregate corporate penalties in the US have risen from about $1billion in 2001 to just over $2 billion in 2018. Although this is an absolute increase of 100 percent, in real terms, it represents a decline of 68.54 percent in purchasing power (Consumer Index, 2022). Garrett's analysis also notes the sharp decline from a peak of $10 billion in 2016 to the 2018 total which coincides with the change of Administration at that time. Finally, Lund and Sarin (2020)

[122] As measured by Gross Domestic Product (GDP). GDP is the aggregate output of the many companies (public and private), governments and individuals in society that together constitute the world economy.
[123] To be precise, Clement's (2006) data covered the period January 1, 2000, and June 30, 2005.

remind us that recidivism principally by large companies increased from 7 percent in 2010 to 50 percent in 2015. In short, corporate irresponsibility is on the increase in the US and companies' accountability to the public via regulators and government agencies is on the decline.

8.2. Policy implications

Accountability subversion conceptualises countermeasures as a means of undermining the direct and indirect effects of public accountability. The theory reminds policymakers that countermeasures are strategically used by companies; to deliberately subvert public accountability. It is hoped that this insight primes policymakers as they design financial penalties to remediate public harm and enforcement actions to reduce the risk of recurrence. The policy implications are discussed below for each mechanism of public accountability: public shaming, financial penalties, and enforcement orders. Each is designed to counter corporate strategic anticipation and subsequent use of countermeasures to subvert public accountability.

This research into the effects of public shaming has implications for policymakers and practitioners. Policymakers can order some reformative action directly (e.g., by issuing corporate fines and corporate penalties) and must take other actions cognisant of the fact that the effect of such actions can only be secondary, primarily for legal reasons (Pistor, 2019). In formulating reformative actions that have an indirect effect (e.g., on sales revenue and shareholder return), policymakers should be innovative in seeking actions which can have an amplification effect on the company. For example, the underlying belief in the causal logic – accountability → reputational harm → high levels of systemic responsibility – is over-relied upon. In short, the assumed power of reputational harm as an incentive is overstated by policymakers. Reputational harm can be mitigated and even reversed by information asymmetries inherent in marketing communications commonly deployed by companies (e.g., Zuboff, 2019; Wu, 2017). Scholars have warned of an accountability bias – a view that society requires evermore accountability to police corporate behaviour (Bovens and Schillemans, 2014). The recommendations of this thesis focus on qualitative rather than quantitative change in policy, and on qualitative policy that has a magnification effect in the marketplace in each of the personal, corporate and shareholder domains.

In the personal domain, regulators should eliminate Non-Prosecution Agreements (again, NPAs) from future settlements. By initiating legal proceedings as early as possible in

the process of holding CEOs to account, regulators are signalling intent. Garrett (2020) proposes reform of the current policy of not pursuing personal prosecutions until settlements with companies are in place. In the US, such out-of-Court settlements typically include NPAs which protect CEOs, company officers and employees from subsequent prosecution. Regulators fear lengthy legal battles with no guarantee of success for taxpayers' investment in the process (Garrett, 2014). Institutional reforms, such as the Irish Government's creation of a Corporate Enforcement Authority[124] in 2018, which investigates potential corporate crimes and initiates summary proceedings or refers cases to prosecuting authorities, can overcome such fears.

Regulators could design policy to incentivise shareholders to keep CEOs in post to reform the corporate irresponsibility that occurred during their tenure. We know that CEOs' personality, values, and experiences mediate their decision-making as much as technical and professional proficiency (e.g., Chin, Hambrick and Treviño, 2013; Hambrick, 2007; Hambrick and Mason, 1984). Such a *remain and reform* policy could appeal to CEOs' 'ego strength' (Diamond, 2019, p.42) and desire to leave a positive personal legacy (Haidt, 2012; Rokeach 1974). Policy designed to appeal to ego may be a more powerful incentive than financial rewards – especially for people who have already amassed personal fortunes of tens and hundreds of millions, if not billions, of dollars. Some regulators (for example, the EU) recognise that some companies are what they term, 'public interest'[125] companies, i.e., they are of sufficient size that their activities can benefit or harm the public interest. Commentators and academics have referred to such companies as 'too big to fail'[126] (e.g., Sorkin, 2010; McKinney, 1984). In circumstances where it is inappropriate to prosecute a CEO for illegal behaviour, it may be preferrable to incentivise continuity of tenure until the implementation of substantive systemic responsibility reduces the risk of recurrence.

Policymakers could also design measures to incentivise Boards of Directors to pursue systemic responsibility. Directors exercise their collective supervisory oversight over the CEO in two principal ways: compensation incentives and governance (Busenbark, *et al.,* 2015). In the eyes of the law, overseeing CEO compensation is the principal task of the Board which has a fiduciary duty to maximise shareholder value (again, MSV). However post-crisis policy could

[124] General Scheme of the Companies (Corporate Enforcement Authority) Bill of 2018.
[125] Non-Financial Reporting Directive (NFRD) - Directive 2014/95/EU.
[126] Use of the term "too big to fail" is first associated with a quote by Congressman Stewart McKinney, who during hearings into the bailout of Continental Illinois said, "We have a new kind of bank. It is called too big to fail …".

also incentivise the redesign of CEO compensation to include KPIs focused on systemic responsibility. Studying Bank CEO compensation, Cerasi, *et al.,* (2020), found that international standards[127] introduced after the 2008 financial crisis by the Financial Stability Board (FSB) moderated the structure of compensation packages. Specifically, their study found that the Boards of Directors of commercial and investment banks reduced the variable component of CEO compensation packages. In effect, CEOs were not as incentivised, through high levels of variable compensation, to accept the same levels of risk as they had pre-crash. The effect is strongest in investment banks, where the appetite for risk taking is historically higher. Regulators may require strongly mandated standards (such as in the case of the FSB) post-crisis if compensation is to become a mechanism for incentivising CEOs to pursue compliant responsibility. Such standards, as part of a negotiated settlement with the company, might have more impact on CEO decision-making. Boards of Directors can also use their governance powers over CEOs to ensure that the CEOs' strategy is designed to pursue high levels of systemic responsibility. Governance procedures, such as strategy reviews and monitoring of progress towards established goals, can be institutionalised and remedial action insisted upon as required.

Regulators increasingly compel shareholders, as participants in financial markets, to disclose ESG performance. In a similar vein, policymakers could incentivise shareholders to compel their appointed Board Directors to pursue systemic responsibility using the effects of compensation and compensation recovery (in the event of irresponsible behaviour). Policy could restrict the number of commercial and non-commercial roles Board Directors are permitted to hold at any one time. This would allow Non-Executive Directors (again, NEDs) more time to fulfil their oversight of CEOs. Additionally, CEOs currently in post could be barred from sitting as NEDs. At the time of each crisis, each company had NEDs who were also serving as executive officers of external companies: BP had one CEO and one CFO on its Board of Directors, VW had one CEO and two Ministers of State (Lower Saxony and Qatar), Equifax had one CEO, five of fifteen Wells Fargo NEDs held executive posts at the same time and all 6 of Facebook NEDs were in executive positions elsewhere. Managing one company full-time is likely to restrict the time available to fulfil the NED's role of overseeing the CEO.

Policy could further incentivise shareholders to exercise greater coercive influence on CEOs by voting against Boards that are failing to achieve high levels of responsibility as a

[127] In 2011, the Financial Stability Board (FSB) was mandated by central banks, treasury ministers, and financial markets authorities to introduce Principles and Standards of Sound Compensation for its member countries.

means of mitigating systemic environmental, social and governance risks to their investment (Ioannou and Serafeim, 2019; Hirschman, 1970). The EU has introduced 'Sustainable Financial Disclosure Regulation' (SFDR) [128] in 2021 and the Corporate Sustainability Reporting Directive (CSRD) in 2022. Both the SFRD and CSRD make it mandatory for financial market participants and listed companies to report on a classification system of environmentally sustainable economic activities called the EU Taxonomy (EUT). In sum, there is an opportunity for policymakers to incentivise shareholders to pursue systemic responsibility in parallel with new disclosure requirements – to deploy a carrot and stick approach likely to engender trust-based accountability (Mansbridge, 2014).

This research also has implications for management. Board Directors of companies have the discretion to use the effects of public shaming – i.e., legal status – and designate a CEO as a 'bad' leaver. Bad leaver status can require CEOs to forfeit unpaid incentive payments, equity shares and/or unvested share options running into tens or hundreds of millions and even billions of dollars (Crossland and Chen, 2013). Such a policy could help provide a deterrent to irresponsible behaviour in successor CEO and, by extension, to employees. Companies can also strengthen and enforce compensation recovery to motivate responsible behaviour. By adjusting CEO compensation packages so that annual clawbacks, as well as bonuses, function as a positive reinforcement mechanism, Boards of Directors can motivate high levels of systemic responsibility (Van der Stede, Wu and Wu, 2020). Companies can also cease to deliberately use marketing communications to appear more systemically responsible to stakeholders than is the case (Gillespie, 2008). By identifying that sales revenue as an effect of public shaming has a low manifestation, this research shines another light in support of scholarship into the greenwashing phenomenon (e.g., Gatti, Seele and Rademacher, 2019; Hengst, *et al.*, 2019; Delmas and Burbano, 2011). If companies are greenwashing, it is possible that reputational harm could cause negative customer perceptions resulting in a potential loss of sales revenue and a reduction in the associated mechanism of operating profit. However, scholars have found that pre-crisis perceptions of a company's responsibility condition stakeholders' response to post-crisis CSR communications. When stakeholders perceive the crisis to be accidental and not the fault of the company, such CSR communication can have a positive effect on purchase intentions (Ham and Kim, 2020; Coombs 1995).

[128] The Regulation is being extended in 2022.

The surprising evidence that financial penalties are highly correlated with systemic responsibility opens the possibility for policymakers to incentivise high systemic responsibility by designing and aligning novel penalties. By finding that even record financial penalties for some of the biggest corporate scandals of the ten years from 2010-2019 amount to a cost of doing business in both the personal and corporate domains, this research raises the possibility that policymakers may be prone to cognitive bias. For regulators, statute or previous penalties may anchor the nature and quantum of fines and be adjusted from that starting point during the negotiation with companies, until a mutually acceptable agreement is reached in the final settlement (e.g., Thaler and Sunstein, 2003). To avoid bias, regulators could design diverse types of penalties in addition to fines. For example, in 2018 the Board of Governors of the Federal Reserve System restricted Wells Fargo from growing any larger than its total asset size as of the end of 2017[129]. Making the announcement to the Press, Chair Janet L. Yellen said,

> *"The enforcement action we are taking today will ensure that Wells Fargo will not expand until it is able to do so safely and with the protections needed to manage all of its risks and protect its customers."* (Federal Reserve, 2018).

If the quantum of fines is small relative to sales revenues and shareholder value, regulators could consider deploying penalties related to core operations, such as a percentage of sales revenues or a percentage of future discounted cash flow. Policymakers could better align such a change in policy with the systemic effects of shareholder capitalism and be more effective in incentivising high levels of corporate responsibility (Schneider, 2020).

In a similar vein, policymakers could seek to influence shareholders more directly than is typically the case. Ioannou and Serafeim (2019) examine the sustainability performance of over 2,000 companies for the period 2012–2019. They distinguish between what they term *common* and *unique* sustainability actions. Sustainability actions can become common throughout an industry over time either through imitation or regulation. Unique actions, which depend on individual firm resources and capabilities, can become the source of competitive advantage. They find that the effect of common sustainability actions on financial performance is weaker over time than unique actions. The findings that financial penalties unexpectedly result in medium rather than high compliant responsibility suggest that penalised companies

[129] Growth was defined as, "the average of WFC's total consolidated assets reported in line 5 of Schedule HC-K to the form FR Y-9C (Consolidated Financial Statements for Holding Companies) for the current calendar quarter and the immediately preceding calendar quarter to exceed the total consolidated assets reported as of December 31, 2017, in line 12 of Schedule HC to the form FR Y-9C (Consolidated Financial Statements for Holding Companies)". (Wells Fargo & Company, Consent Order, [2018]).

may be reluctant to comply with reformative actions ordered by regulators as part of the settlement with the company, fearing that compliance will diminish competitiveness with un-penalised peers. In other words, CEOs and decision-makers may regard compliance and high corporate responsibility, as an opportunity cost of reduced financial and share price performance, which is short-term and central to executive compensation. A medium level of systemic responsibility may be perceived as an offset to this opportunity cost.

Policymakers could levy fines as a percentage of dividend payments over a fixed period which could have the effect of reframing shareholder pressure (Kahneman and Tversky, 1974). Scholars have found that CEO and executive decision-making is mediated by the tone and polarity (i.e., negative or positive) of stakeholder scrutiny in media and professional coverage of the company's activities[130] (e.g., Graafland and de Bakker, 2021; Ioannou and Serafeim, 2019; Crilly, Hansen and Zollo, 2016). Shareholders may apply coercive pressures to resist or comply with reformative actions, leading to high responsibility (Ioannou and Serafeim, 2014). Following this line of thinking, shareholder pressure might for instance lead to changes in CEO compensation in a reframed principal-agent contract. Such changes could increase (or add new) KPIs related to responsibility post-crisis. Further, it could ensure that such KPIs amount to 50 percent or more of total CEO compensation (as proposed in the analytic framework deployed in this study). Shareholders, through their appointed Board Directors, can also introduce *and enforce* more encompassing clawback clauses in CEO contracts in the event of future irresponsibility, as was the case at Wells Fargo and Equifax (discussed above). Such enforcement could be a strong signal to employees and may deter future irresponsibility (Quigley and Hambrick, 2014).

Management can reformulate strategy and business models aimed at becoming a 'sustainable organisation' i.e., a company that integrates environmental and social issues to achieve a concept of value beyond maximising financial performance (Eccles, Ioannou and Serafeim, 2014). New concepts and methods of accounting which take environmental and social issues and interests into account facilitate such initiatives (Dillard and Vinnari, 2019). There are three emerging methods: companies first deployed Integrated Reporting in 2012 and is the most adopted (Value Reporting Foundation, 2021); Impact-Weighted Accounting was formalised in 2019 and is in development (Serafeim and Trinh, 2021); and Accounting of Mutuality which was launched in 2021 (Mayer and Roche, 2021). Decision makers can also

[130] Stakeholder scrutiny at the industry and company level typically is measured by researchers using content and sentiment analysis of media coverage, analyst reports, advocacy groups, and government regulators.

learn to "never let a good crisis go to waste"[131]. Instead, they can learn to reform policies and practices that lead to irresponsible behaviour (e.g., James, Wooten, and Dushek, 2011; Veil, 2011; Lampel, Shamsie, & Shapira, 2009).

The implication of the strong relationship between ordered responses and compliant responsibility suggests that policymakers could deploy more ordered responses and legal enforcement to oblige, if not incentivise, high levels of compliant responsibility. Specifically, more precision in the design and drafting of ordered reforms could reduce the possibility of unintentional decoupling. More monitoring of a company's progress is critical to enforcement (only one case in four is currently monitored (Garrett, 2014)). A greater number – and more diverse – regulatory agencies would reduce the resources and costs incurred by each regulator and could better reflect the multi-faceted nature and complexity of corporate responsibility (only 9 percent of enforcement goes to other government regulators (Garrett, 2014)). Finally, regulators need to impose monitoring for as long as it takes for high levels of systemic responsibility to become sustainable. Policymakers should be cognisant that long-term monitoring may well overlap with different administrations complicating and compromising it (Garrett, 2020).

Regulators could also seek to increase transparency of their negotiations with companies which is a critical part of the public accountability process but is ironically not public (e.g., Kuipers and 't Hart, 2014; Garrett, 2014). Business power is based on managerial expertise relative to the expertise of policymakers and other influence groups. It is most influential when policymakers and companies formulate reform in private, quietly, and out of the public gaze (Culpepper, 2012). Transparent negotiations could rebalance power relations between companies and regulators. A default claim by management resisting responsibility for a crisis (and therefore financial penalties and enforcement orders) is that they are following legal advice. But 'companies can apologise' without necessarily accepting responsibility or liability (Patel and Reinsch, 2003). A less legally based approach to a crisis would allow company decision-makers to co-operate with regulators and other stakeholders, which may limit reputational and financial harm and reduce settlement and legal costs (*ibid*, 2003). Table 8.1. summarises the policy implications (column 2) inferred from each mechanism (column 1).

[131] Attributed to Winston Churchill and reiterated by Rahm Emanuel, White House Chief-of-Staff after the 2008 financial crash.

Table 8.1. Summary of policy implications

Mechanism	Policy implications
Public shaming	Eliminate NPAs and prosecute more CEOs and decision makers.
	Incentivise continuity of CEO tenure until public harm is remediated and high systemic responsibility is in practice.
	Incentivise Board Directors to amend CEO compensation incentives and governance of their activities.
	Incentivise shareholders to motivate Boards of Directors to pursue high levels of responsibility through compensation, compensation recovery and limits on number of Board roles held simultaneously.
Financial penalties	Deploy penalties related to company core operations to align with the systemic effects of MSV (e.g., sales revenues or a percentage of future discounted cash flow).
	Levy fines as a percentage of dividend payments over a fixed period to reframe shareholder pressure on Board Directors and CEOs.
Enforcement orders	Design and draft ordered responses to oblige high levels of compliant responsibility.
	Increase monitoring, for longer periods, and involve several regulatory agencies to reflect the multi-faceted nature of corporate responsibility.
	Be transparent in the negotiation of settlements with companies.

In conclusion, policy makers can step-up efforts to expose irresponsible behaviour and corporate crime which is on the increase (Lund and Sarin, 2020). This study's findings support the elimination of NPAs; increased prosecutions against both individuals and companies; the continuity of CEO tenure post-crisis, new direct incentives for shareholders and Boards of Directors to amend CEO compensation and improve oversight, new and innovative fines and penalties; the long-term monitoring of compliance with enforcement orders in exchange for deferred prosecution agreements (DPAs); and transparency in the negotiation of settlements and Consent Orders (Garrett, 2020, 2014). These reforms can be themselves subject to accountability subversion in future. Perhaps the single most effective mechanism to mitigate against this possibly is a sustained, normative shift towards sustainable business (which may be underway). The mainstreaming of sustainable business can be expected to result in market-based incentives which drive performance towards high levels of corporate responsibility and away from corporate strategic anticipation.

8.3. Research limitations and opportunities

This author acknowledges the limitations of analysing individual companies. Each case is certainly unique in its structural, cultural, and operational characteristics (Banerjee, 2008).

Researchers could extend the analysis beyond MNCs to companies quoted on public stock exchanges operating in a single jurisdiction to further scholars' understanding of the effect of a crisis on corporate responsibility. Currently, institutional pressure from regulators and the investment community focuses primarily on large, publicly held companies; extending the study to privately held and/or family-owned companies would further an understanding of how private businesses perceive the role of corporate responsibility in responding to a crisis. In a further extension, researchers could examine companies owned by private investors (e.g. venture capital, private equity and family owned companies) which are also outside the current regulatory regime. Researchers could also extend the two-year post-crisis timeframe to establish if two years is sufficient time for companies to report high levels of compliant and systemic responsibility. This research focuses on five crises whose epicentre was in the US which limits the geographic reach of the study. Researchers could apply this thesis' analytical framework to crises in the global south which would facilitate deeper study into institutional and contextual variation of corporate responsibility in line with Matten and Moon (2008) and Ioannou and Serafeim (2012). Researchers could also extend the framework's applicability beyond the commercial world to not-for-profit organisations, the public sector, and into politics.

Opportunities for further research include an examination of the antecedent conditions that result in a corporate crisis, which could help to avert management failures. A temporal-causal relationship raises the possibility of proactive accountability and proactive crisis management. Perrow (1984) observed that what may appear insignificant may in fact be a signal of a sequence of events and failures throughout the system, ending in breakdown and crisis. Mitroff (1988, p.18) noted, "long before its actual occurrence, a crisis sends off a repeated and persistent trail of early warning signals". Theoretically, if the signals of incipient crisis are present and recognised, then the crisis might be averted, or at least mitigating steps to reduce its effect may pro-actively be taken by CEOs. More recently, scholars have deployed technologies such as machine learning, neuro-linguistic processing and convolutional neural networks to analyse the content of public data sources and real-time social media to detect crisis at, or as close to, inception as possible (e.g., Burel, *et al,*. 2020; Burel and Alani, 2018; Kshirsagar, Morris and Bowman, 2017; Mukkamala, *et al,*. 2015). Such scholarship can be extended by identifying words and semantics embedded in data that signal the unfolding of a crisis in the hope of improving crisis response and management.

A future iteration of this study could deploy Qualitative Comparative Analysis (QCA) to compensate for the limitations of a small N design. QCA could be deployed to help explain

how variation on the independent variable i.e., sectoral differences, crisis nature and cultural differences in case companies affect the performance of corporate responsibility. Of the four propositions tested, P1 was sufficient to explore causality between CEO accountability and systemic responsibility; two (P2 and P3) were necessary and sufficient to explore causality with compliant responsibility and one (P4) was sufficient to explore causality with both compliant and systemic responsibility. QCA could combine case orientated and variable orientated analysis to calibrate different ranges of responses to deepen understanding of the conditions under which CEO accountability would have changed the levels of compliant and/or systemic responsibility.

The possibility of a revision by companies to previous disclosures in Annual Reports is an improbable but potential limitation of corporate reporting as a data source; such revisions could favour presentation of a company's responsibility retrospectively. Under the IFRS (again, International Financial Reporting Standards) and Generally Accepted Accounting Principles (GAAP), companies can revise previous disclosures in Annual Reports and Accounts for up to five years. This limitation is ameliorated in three ways. Firstly, such revisions are transparent – the explanation is in the Annual Report in the section 'Notes to financial statements'. Normally, revisions amount to rounding or recalculation and more significant revisions are usually a result of accounting error rather than deliberate attempts to defraud. Secondly, revisions are unlikely to be material[132] to assessing changes in corporate responsibility (Deloitte, 2021). Lastly, disclosures in Annual Reports are triangulated in this research with SEC filings, Sustainability Reports and ESG measures.

Although recent initiatives are making advances towards convergence, as yet there remains a lack of a standard surrounding ESG metrics to which all companies are held, which limits this study (Larcker, Pomorski, Tayan and Watts, 2022). The lack of standardisation results in an estimated 30 percent to 71 percent variation between the leading database providers (Berg, Koelbel and Rigobon, 2019). By comparison, company ratings on long-term debt hardly vary at all (92-96 percent correlation). Further research replicating this study but using other leading providers of ESG measures such as MSCI[133] and/or Sustainalytics[134], for

[132] Who Cares Wins introduced a broader definition of materiality than commonly used — one that includes longer time horizons (5-10 years and beyond) and intangible issues affecting company value. "Using this broader definition of materiality, aspects relating to generally accepted principles and ethical guidelines (e.g., the universal principles underlying the Global Compact) can have a material impact on investment value" (United Nations, 2004, p.2).
[133] MSCI is a provider of decision support tools and services for the global investment community.
[134] Sustainalytics is a provider of ESG and corporate governance research and ratings.

example, to assess corporate responsibility could provide additional confidence in the findings (or more likely support prior research into their divergence). This analysis uses Refinitiv Eikon ESG ratings and aggregate scores as best available data. Scholars and investors acknowledge Refinitiv Eikon ESG ratings to be amongst the world's best and most complete databases of ESG measures and have been operationalised in numerous studies (e.g., Bannier, *et al*, 2019; Dyck, *et al.,* 2019; Hawn and Ioannou, 2016; Cheng, Ioannou and Serafeim, 2013). Stakeholders can expect companies to report improvements in responsibility to mitigate the negative effects of a crisis, even if such reports are greenwashing and do not reflect systemic change.

The quality of ESG data is a limitation of this study. Not only is there is no standardisation, but there is also no regulation of ESG reporting. Nor currently is there a requirement for companies to have their disclosures assured by professional accountants to the same standards as their financial reporting is audited[135]. ESG reporting by companies is often inconsistent and incomplete. Companies can cherry-pick positive facts and fail to report negative ones. This instrumental use of ESG reporting can reduce ESG performance to little more than marketing collateral. Companies can now directly influence the ratings agencies to award a higher rating in what this author terms the *'ESG echo effect'*. This occurs when company-level ESG claims and public sentiment about their activities on social media feeds into algorithms based on artificial intelligence and machine learning increasingly deployed by ratings agencies to score the ESG performance of companies. In other words, the ESG echo effect means that, "the more a company markets its ESG disclosures, the better its ESG ratings are likely to be" (Lepere, 2022). While some researchers and investors acknowledge the shortcomings of ESG, the research design integrates the deployment of textual analysis and two types of Refinitiv Eikon ESG measures, CRIs and SRIs, to assess compliant and systemic responsibility, respectively. Readers should also note that the unique panel of SRIs aligns with the WEF framework. This framework operationalises standard measures which are highly correlated across providers (WEF, 2020). The WEF framework at the time of writing is the most high profile (Tett, *et al.,* 2021) and most widely adopted (Hillyer, 2021) initiative to standardise ESG reporting by large publicly held companies such as MNCs.

Scholars have identified the advantages to companies of being perceived as being 'more' rather than 'less' responsible (e.g., Chandler and Werther, 2014). For example, a 'good'

[135] Emerging IFRS standards, under the auspices of the International Sustainability Standards Board, should mitigate this limitation for future research.

reputation can improve customers' purchase intentions (e.g., Olson, 2013) and satisfaction (Du, Bhattachary and Sen, 2010); stakeholder relations (e.g., Dias, Rodrigues and Craig, 2016; Schmeltz, 2016); employees' values (Meyerson, 2003) and labour costs (e.g., Wietrak, Rousseau and Barends, 2021; Costas and Fleming, 2009); access to capital (e.g., Serafeim, 2020; Amel-Zadeh and Serafeim, 2018); and stock market valuation (Karpoff, *et al*., 2008, 2005). Such advantages are powerful motivations for two avenues of decision making by CEOs and senior managers: to deliberately exaggerate green credentials (Gatti, Seele and Rademacher, 2019) and/or to externally report the highest possible level of responsible behaviour (Hawn and Ioannou, 2016). The volume and scope of new regulations around the world indicates the prevalence of greenwashing (Tett, 2022). So, a fundamental question remains, why do crises, and holding CEOs and companies publicly to account for them, cause only medium levels of disclosed responsibility?

8.4. Advancing the debate between shareholder and stakeholder capitalism

This thesis infers that a reimagining of capitalism as the context for public accountability needs to go beyond the dominant logic of shareholder capitalism and the emerging concept of stakeholder capitalism. Scholars debate the effect of the regulatory and institutional regime on CEO motivations towards society and the environment (e.g., Culpepper, 2012; Weaver and Rockman, 1993; North, 1991, 1981). In one view, the weaker the regime's effect (or 'power distance'), the more space and the more room for manoeuvre for CEOs to be irresponsible (e.g., Crossland and Hambrick, 2011). Conversely, scholars have found that institutional pressure from external stakeholders "crowd(s) in" company motivations towards responsible behaviour (Graafland and de Bakker, 2021, p.2387) and generates a "noble obligation" in CEOs (Ioannou and Serafeim, 2012, p.852). By examining the ways in which CEOs are personally held to account for a crisis, this study examines institutional pressure on CEOs and companies at close quarters. In finding medium (rather than high) levels of responsibility, this examination offers the alternative view that CEOs' intrinsic motivations are *crowded out* by the system effects of shareholder capitalism, despite the closest institutional and media scrutiny (de Bakker, *et al.*, 2020, Schneider, 2020).

Shareholder capitalism in its current form is a choice by society to prioritise money over people and planet. It can be denoted mathematically to reduce the inherent ambiguity of language [money > (people + planet)]. Accountability subversion theorises that society's habit of placing money before people and planet is what drives companies to strategically use countermeasures to subvert public accountability. The predominant economic view of

corporate responsibility is that it should be pursued secondarily after profit and only if it contributes to further profit (Friedman, 1970). It is axiomatic, if shareholder value is to be maximised, that the interests of all other stakeholders, however legitimate, must be constrained to accommodate the maximisation.

Self-evidently in the much studied, current view of responsibility as an input to financial performance, money remains priority number one (e.g., Grewal, Riedl and Serafeim, 2019; Amel-Zadeh and Serafeim, 2018; Khan, Serafeim and Yoon, 2016; Karnani, 2011; see Friede, Busch and Bassen, 2015 for a review of over two thousand studies). The current focus of responsibility reflects investor concerns about the ESG (again, environmental, social and governance) risks posed to future returns on their investments. Investors (and the companies they invest in) use ESG to assess the materiality of external environmental and societal risks to a company's ability to generate cash flow and profits into the future (Simpson, Rathi and Kishan, 2021). They do not also assess, as most people assume, the risks that the company poses to the environment and society in what is known as 'double materiality' (European Commission, 2021). In conclusion, shareholder capitalism incorporates two views of corporate responsibility which can be symbolised as [money > (people + planet)]. Accountability subversion holds that the system of shareholder capitalism is counterproductive to public accountability (e.g., Stout, 2013).

Accountability subversion characterises a push-pull dynamic. The push from society for high levels of corporate responsibility is simultaneously undermined by the pull, also from society, for shareholder value to be maximised before the interests of people and the planet. The push-pull dynamic can be conceptualised as reflecting scholarship on the debate between shareholder and stakeholder capitalism as contexts for public accountability. As discussed in Chapter 2, stakeholder capitalism offers alternative views of corporate responsibility. The ethical view in which companies have a duty to be responsible in exchange for the licence to operate (e.g., Pistor, 2021; Ronnegard and Smith, 2018; Mayer, 2018); the co-dependent view in which it is enlightened self-interest for companies to look after all stakeholders and the environment responsibly (e.g., Carney, 2021; Freeman, Phillips and Sisodia, 2018; Stern, 2011); and the responsive view in which normative values drive corporate responsibility (e.g., Pirson and Parmar, 2017; Rivoli and Waddock, 2011; Mitchell, Agle and Wood, 1997). The consensus is that societal and environmental concerns are seen to be as important or approximately equal to money in stakeholder capitalism i.e., symbolically denoted as [money ≈ (people + planet)].

Alternatives to shareholder capitalism have long been the topic of management and organisation studies. Herman Simon (1947) coined the term ‘satisficing’ to describe firm behaviour in pursuing several objectives sufficiently well, rather than seeking to maximise a single objective. Satisficing does not make it necessary for managers to try to resolve conflicts between shareholder and stakeholder interests (or among different sub-groups of each). Stout (2013) argues that MSV serves only a small subset of shareholders who, “are most short-term, opportunistic, undiversified, and asocial”. Among other shareholder types she identifies: long-term shareholders seeking returns over the long-term; diversified shareholders who want to avoid harming their other investments and interests as employees, consumers and members of society-at-large; and pro-environmental/prosocial shareholders who seek returns from companies that have a responsible impact on society and the environment (*stet,* 2013). Accountability subversion holds that stakeholder capitalism (should it even be possible), like shareholder capitalism, would also undermine public accountability.

The advent of ESG related pay as a proportion of CEO compensation is perhaps the best illustration of stakeholder capitalism in action. Empirically, this thesis finds CEO compensation is the only effect of public accountability that is manifest at a consistently low level in every case and for every CEO. The Boards of Directors of Equifax and BP altered the variable component of compensation for two CEOs to reflect a desire for more responsible behaviour post-crisis. In the case of Begor (Equifax), this amounted to approximately 0.2 percent of total compensation and ten percent in the case of Dudley (BP). It was unchanged for the remaining twelve CEOs. In the UK, PwC (an accounting firm) found that 58 percent of FTSE 100[136] companies now link ESG measures to executive pay in some way with a typical weighting of around 18 percent (PwC, 2021). In a study of the S&P 100[137] in the US, Bebchuk and Tallarita (2022) find that “most companies do not disclose the weight of ESG goals for overall CEO pay”. Just over one in four companies did disclose details and of those, ESG is weighted between 1.5 percent and 3 percent. The maximum weighting in the study was 12.5 percent. The evidence is that, at best, CEOs continue to have 82 percent of their pay determined by shareholder, rather than stakeholder interests, and typically 97 to 98.5 percent of compensation remains in favour of shareholder interests. The empirical results of this study support these findings on CEO compensation. In short, public accountability does not affect

[136] The FTSE 100 is an index composed of the 100 largest companies by Market Capitalisation listed on the London Stock Exchange.
[137] The Standard & Poor’s (S&P) 100 Index is an index of 100 publicly traded companies in the United States.

CEO compensation to a high degree. Accountability subversion theory highlights how, in the process of holding companies to account, society makes contradictory demands on companies which empirically has the effect of constraining corporate responsibility. The theory suggests another type of capitalism needs to be imagined if society's goal of high levels of systemic corporately responsibility is to be achieved through publicly holding CEOs to account.

In an attempt to advance the debate between shareholder and stakeholder capitalism, accountability subversion theory points to the need for a different concept of capitalism which this author coins 'subordinate capitalism'. Subordinate capitalism prioritises people and the planet before money i.e., to avoid ambiguity [money < (people + planet)]. Such a reprioritisation is a matter of societal choice (Ostrom, 1990). Subordinate capitalism explicitly goes beyond companies becoming sustainable by integrating environmental and social issues "effectively and profitably" into strategy to achieve a concept of value beyond financial performance (Ioannou and Hawn, 2016, p.6; Eccles, Ioannou and Serafeim, 2014). To be clear, the concept of subordinate capitalism suggests that the ongoing debate between shareholder and stakeholder capitalism is phoney; in reality, the primacy of shareholder capitalism is encoded into societal habits and enshrined in its laws which means it will always, in practice trump the claims of stakeholder capitalism (e.g., Ivey, 2022; Piston, 2021). Subordinate capitalism does not mean that profit is 'bad' per se (Lepere and Eckhardt, 2020). It is a different view of profit in which lower profit in the short-term is traded off against longer term sustainable returns (e.g., Bower and Paine, 2017; Knafo and Dutta, 2016; van der Zwan, 2014).

The implication for public accountability of this reprioritisation is to create the context, or a reform of the capitalist system, in which public accountability can be effective. In other words, subordinate capitalism removes the conflict inherent in public accountability which constrains its effect. It could lead to societal learning and coordinated behavioural change across business, society and governments, and to a preferred future than the one that appears to be increasingly pre-determined (Gidley, 2017). Accountability subversion theory helps this process of change. Specifically, accountability subversion sets out how to resolve the conflict between new regulation designed to motivate high levels of corporate responsibility and declining public accountability. Over forty regional and national governments are introducing new and coordinated regulation primarily to harness the power of the capital markets to reduce the negative impacts of companies' activities on stakeholders and the planet, to compensate for them and to change their business models to increase positive impacts (e.g., EU Commission, 2022; Serafeim, 2020; Ioannou and Serafeim, 2018). Without effective public accountability

for company irresponsibility, it is highly unlikely that this regulation can be as effective as the crises of climate and inequality demand it to be. In essence, this study has been conducted at a time of crises in climate and inequality when it is reasonable to ask, ‘if not now, when?’ It empirically finds that public accountability fails to incentivise companies to high levels of compliant and systemic responsibility 24 months post-crisis despite the extreme circumstances of crises causing widespread public harm; CEOs publicly accepting responsibility (under oath) for non-recurrence; and legally binding commitments negotiated by the CEO and the Board of Directors. Public accountability itself needs to change. Accountability subversion offers four recommendations.

Firstly, corporate law needs to be amended to replace Directors’ existing fiduciary duty with a new fiduciary duty. Shareholder capitalism is encoded into the legal system which has developed to privilege and protect the “privatisation of gains and the socialisation of losses” to the point that responsible capitalism is a “myth” (Pistor, 2021). The fiduciary cornerstone of the system of shareholder capitalism is the duty of Board Directors to maximise shareholder value. Policymakers need to replace the existing fiduciary duty with a new fiduciary duty for Board Directors to place the interest of people and planet before money – i.e., for the avoidance of doubt [(people + planet) > money] – in line with subordinate capitalism. Such a change creates the conditions for public accountability to be effective in holding irresponsible CEOs and companies to account. Under accountability subversion theory, such a new fiduciary duty mediates the compulsion for companies to use countermeasures to deliberately subvert public accountability. CEOs pursuing high levels of systemic responsibility would be doing their fiduciary duty to stakeholders and being accountable to the public.

Secondly, policymakers can bring their negotiations with companies to reach a settlement into the public domain. One of the many effects of transparent negotiation would be axiomatically to reduce business power, which is most influential when management expertise, relative to regulatory expertise, is deployed in private (Culpepper, 2012). In effect, by opening-up negotiations, regulators can co-opt the expertise of society-at-large. This is likely to have the added benefit of increasing trust in the process of public accountability. As part of greater transparency in the negotiation of accountability, policymakers can eliminate NPAs (again, non-prosecution agreements). Removing NPAs as a countermeasure to public accountability clears the way for more prosecutions of individuals and organisations, as part of the process of public accountability, instead of as this study found, a parallel process (if it happens at all) long after events. Company strategy and decision-making is an individual endeavour on the part of

CEOs, senior managers, and the Boards of Directors, whose function it is to oversee CEO decision-making. The prospect of legal accountability as a direct effect of public accountability can act as a positive enforcement mechanism in the personal domain. In the corporate domain, more prosecutions of companies are likely to increase public shaming and reputational harm, which in turn may have negative indirect effects on sales revenue and operating profit. Lastly, policymakers can deploy a counter-countermeasure by refusing to include DPAs (again, deferred prosecution agreements) in settlements. Routinely refusing, rather than offering, DPAs would also reaffirm society's normative values that wrongdoers face legal accountability.

Thirdly, policymakers can use legal mechanisms to obligate high levels of compliant responsibility. This policy is in line with the evidence, based on this study, that ordered responses have a very strong relationship (r = 0.826) with compliant responsibility. Ordered responses are actions required by regulators that are agreed to by the CEO and Board of Directors as part of the settlement negotiated between the company and the regulators. The settlement is enforced by the Courts in Consent Orders. In the new environment of subordinate capitalism, which can create a new fiduciary duty to place the interest of people and planet before money, policymakers can use ordered responses to directly incentivise shareholders to elect and motivate Boards of Directors to pursue high levels of responsibility through the indirect effects of NED compensation and compensation recovery. Policymakers can also directly use ordered responses to incentivise Boards of Directors to amend CEO compensation and to increase their oversight of CEOs. Separate regulation can limit the number of board roles that can be held simultaneously, thereby increasing NEDs' time to fulfil their function of overseeing the CEO. Finally, ordered responses could positively reinforce public accountability by obliging CEOs to remain in tenure until public harm is remediated and high systemic responsibility is in practice. Whereas regulation needs effective enforcement, ordered responses require effective monitoring over sufficiently long timeframes until high levels of compliant and systemic responsibility become sustainable (e.g., Garrett, 2020; Duru, *et al.*, 2018). Such long-term monitoring can be enforced, in *extremis*, in exchange for DPAs (Garrett, 2014) and funded by the company as part of the financial penalties incurred for irresponsible behaviour.

Fourthly, policymakers can directly deploy penalties related to company size and core operations as mechanisms of positive re-enforcement. Relating the quantum of fines and financial penalties to company size ensures that penalties have a high impact on companies. For example, fines linked to sales revenue (e.g., as a percentage of revenues reported in SEC

filings) could act as a backstop to companies not acquiescing to their public accountability, irrespective of the size of such revenues. In another example, direct fines linked to dividend payments could indirectly reduce total shareholder return and help to reframe shareholder pressure on Board of Directors and CEOs in line with their new fiduciary duty to place the interest of people and planet before maximising value for themselves. Accountability subversion points the way to the possibility of a reinvigorated public accountability. A reformed and vigorous public accountability would make a significant contribution to Gauthier's (1986) idea of "constrained" maximisation where business, society, and the state benefit from cooperation.

The duty to maximise shareholder value in the short term has constrained company prosperity (Lazonick, 2014; Mukunda, 2014; Barton, 2011). Freed from this duty in a system of subordinate capitalism, business could benefit from increased investments in research and design, skills development, higher wages, and technology innovation, for instance (e.g., Mukunda, 2014; Chang, 2011). The fiduciary duty to prioritise people and planet could allow CEOs, Boards of Directors, and company decision makers to allocate investment in the mid to long term to take advantage of the business opportunities that meeting the challenges of climate and inequality present (e.g., Business and Sustainable Development Commission, 2017; Knafo and Dutta, 2016; van der Zwan, 2014). Society-at-large could benefit from advances made in reducing and repairing climate and environmental damage and a fairer and more equal distribution of wealth, health, and opportunity. Democratic societies could also benefit from a rebuilding of consensus and re-established (or newly found) trust in their institutions (e.g., Tirole, 2018; Collier, 2018). Governments could benefit from addressing market failures which are a major drain on the public finances. At a minimum, governments would benefit from a well-functioning system of public accountability for irresponsible behaviour – so too would business and society.

8.5. Conclusion

As the crises of climate and inequality deepen, corporate responsibility towards the environment and society has never been more in the public interest (IPCC, 2022; UNDP, 2019). In Room 2123 of Rayburn House and Room 2538 of the Dirksen Senate Office building, Members of Congress – the people's Representatives – sit on a dais looking down on five irresponsible CEOs; this is the court of public opinion in which they are personally being held to account for some of the largest crises in corporate history. Following due process, regulators (acting on behalf of Congress) negotiated a settlement with each company. These settlements

included some of the largest fines and penalties ever levied to remediate public harm, and enforcement actions to reduce the risk of recurrence. For good measure, the settlements were underwritten in the Courts and issued as Consent Orders. Progress in executing the provisions of the Consent Orders was monitored over time. Theory and Congress expects such exercises in public accountability to incentivise companies to achieve high levels of corporate responsibility, but the empirical evidence is that they do not. This thesis was motivated by this paradox.

A review of corporate responsibility scholarship and crisis management studies (chapter 3) identified gaps in the respective literature. The analysis of corporate responsibility scholarship identified six views of corporate responsibility which prove insufficient to explain the paradox and therefore represent a gap in knowledge: the ethical view (e.g. Mayer, 2018); the co-dependent view (e.g., Freeman, Phillips and Sisodia, 2018; Stern, 2011); the responsive view (e.g., Weber, *et al.,* 2021; Pirson and Parmar, 2017); the shareholder view (e.g., Ronnegard and Smith, 2018;); the input view (e.g., Khan, Serafeim and Yoon, 2016); and lastly, the constrained view (de Bakker, *et al.*, 2020, p.1297; Schneider, 2020). In crisis management research, there is an apparent shortfall into the performance of corporate responsibility as a response to crisis *per se*. Some scholars imply that responsible corporate behaviour is a desired outcome of a crisis, but it is not explicitly stated (e.g., Moreno and Kang, 2020; Bundy, *et al.,* 2017; Bachmann, Gillespie and Priem, 2015; Kern, Laguecir and Leca, 2013; Haack, *et al.,* 2012; James and Wooten, 2006). Finally, there is a gap in public accountability research (chapter 4), specifically, into how accountability works to effect change in corporate behaviour in response to a crisis (e.g., Schillemans, 2016; Bovens and Schillemans, 2014; Olsen, 2014).

This thesis addresses these gaps by bringing public accountability theory to bear on both corporate responsibility scholarship and crisis management research, through an examination of the mediating effect of CEO personal accountability (M) on levels of compliant and systemic responsibility (Y) as a response to five crises (X). The gap into the performance of corporate responsibility as a response to crises is filled by analysing changes in subsets of ESG measures to assess the level of compliant and systemic responsibility 12- and 24-months post-crisis in each case. By developing, justifying and modelling a novel framework of the mechanisms of public accountability (i.e., public shaming, financial penalties and enforcement orders), and how their direct and indirect effects manifest change in levels of compliant and systemic responsibility, this study deepens understanding of the conditions and contexts of unexpected public accountability and extends theory into how public accountability works.

Empirically this study finds that, overall, publicly holding CEOs to personally account for crises results in medium levels of compliant (53%) and systemic responsibility (43%), not the high levels (≥75%) theory expects. In each case, medium levels of both compliant and systemic, and overall responsibility, are mirrored, although there is significant variation in the results between cases. Results for each mechanism of public accountability are mixed. The reputational harm caused by the mechanism of public shaming does not substantively affect successor CEOs, sales revenues, operating profits, shareholder returns and/or shareholder turnover. Prosecution of individuals, if it happens at all, typically takes place long after CEO tenure has been terminated mitigating the effects on the company. Financial penalties amount to little more than a cost of doing business to large companies, even when their effects are accounted for in a single financial year following their levy. Enforcement orders are highly correlated to both compliant and systemic responsibility, suggesting that companies are incentivised by public accountability only to the extent that they fulfil what they perceive to be their obligations and not much more. Unusually, the four propositions examined in this study are found to be false. This, even though each proposition is tested in extreme cases in which CEOs are called before Congress and under oath to accept personal responsibility for crises and for taking remedial action. As such, the four propositions offer extremely favourable conditions in which to examine existing theory. Yet, empirical findings are not in line with theoretical expectations and cannot be sufficiently explained by them. To advance an explanation, this thesis contributes new analytic tools and explanations to extend existing literature.

The principal theory-based contribution of this study is the theory of Accountability Subversion. *The public demand that irresponsible actors are held to account by regulators for causing environmental and social harm. This demand conflicts with normative, coercive and mimetic pressures to prioritise economic interests over environmental and social concerns. To reconcile this conflict, CEOs subvert their public accountability by using countermeasures. Countermeasures are actions to undermine the direct and indirect effects of the mechanisms of public accountability i.e., public shaming, financial penalties, and enforcement orders. Such countermeasures are commissioned by CEOs and Boards of Directors (elected by shareholders) and developed by an ecosystem of professional service firms including accounting, legal, and public relations consultants. Accountability subversion constrains public accountability, decouples reputational harm from core business operations, and may inadvertently incentivise greenwashing.*

A second theory-based contribution is the development of analytic tools to explain how the effect of reputational harm, caused by publicly holding CEOs to personally account for a crisis, is not as powerful an incentive as mainstream scholarship – or policymakers – expect. In its third, theory-based contribution to corporate responsibility scholarship, this thesis theorises that public accountability may be an inadvertent motivation for CEOs to instrumentally use ESG disclosures to be seen to be improving systemic responsibility as society demands, while simultaneously meeting their fiduciary duty to shareholders. The empirically based contribution of this thesis is a novel framework that conceptualises mechanisms of public accountability (public shaming, financial penalties, and enforcement orders) and models the direct and indirect of each mechanism. The direct and indirect effects of the public shaming mechanism have been further delineated into relevant domains (personal, corporate and shareholder).

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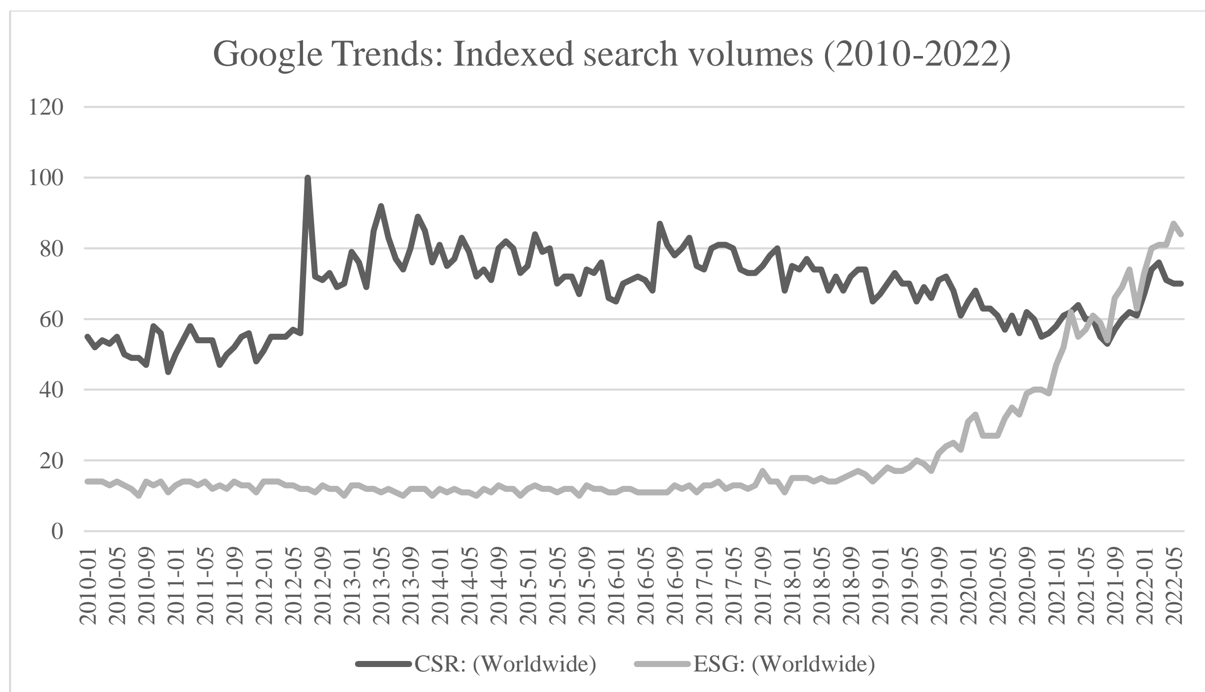
Appendix I: ESG has become the grammar of corporate responsibility

As an indication of the growing bifurcation of CSR and ESG (Appendix I) details online searches of the terms CSR and ESG over the period of this study from 01 Jan 2010 to 01 Jun 2022 using Google (an internet search engine). The numbers are indexed to 100 and represent worldwide search interest relative to its highest point since 2004 when Google search data became available.

Appendix I: ESG has become the grammar of corporate responsibility



The popularity of searches for the term 'CSR' has increased by approximately 27 percent between January 2010 (index 55) and June 2022 (index 70). By comparison, searches for the term 'ESG' have risen 500 percent from 2010 (index 14) to Jun 2022 (index 84). The effect of recent regulatory initiatives can be seen in the increased Google searches of the term 'ESG' since 2018 (Appendix I), overtaking CSR in June 2021. This thesis uses the term 'corporate responsibility' to mean the extent of responsibility a company systemically exhibits in its business model, strategies, operations, and impacts on the natural, social and economic systems in which it operates.

Appendix II: Definition of Systemic responsibility Indicators (SRIs)

Systemic Responsibility Indicators		
ESG Measures (#)	*Refinitiv Eikon ESG Measure*	*Definition*
Environmental (7)	CO2 Equivalent Emissions Total	Total Carbon dioxide (CO2) and CO2 equivalents emission in tonnes. - following gases are relevant : carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCS), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) - total CO2 emission = direct (scope1) + indirect (scope 2) - we follow green house gas (GHG) protocol for all our emission classifications by type
	CO2 Equivalent Indirect Emissions, Scope 3	Total CO2 and CO2 Scope Three equivalent emission in tonnes.
	Resource Reduction Targets	Does the company set specific objectives to be achieved on resource efficiency?
	Waste Recycling Ratio	The waste recycling ratio as reported by the company. - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered by the way of composting is considered as recycled waste
	Water Withdrawal Total	Total water withdrawal in cubic meters. - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like well, town/utility/municipal water, river water, surface water, etc are considered
	Water Recycled	Amount of water recycled or reused in cubic meters. - recycled or reused water refers to water being sourced

		internally by recycling or reusing avoiding further withdrawals - treated water (not used again by the company) does not qualify as recycled water since countries/ companies are required by regulations or environmental standards to treat wastewater before discharging it into the environment
	Total Env R&D / Million in Revenue	Total amount of environmental R&D costs (without clean up and remediation costs) divided by net sales or revenue.
Social (9)	Number of Employees from CSR reporting	Number of employees as reported by the company in its CSR reporting. - include all types of employment such as part-time and full-time employees - information is considered from an annual report when it is reported in the sustainability section or the sustainability section in the company's website - the scope has to be global (100%)
	Net Employment Creation	Employment growth over the last year.
	Salaries and Wages from CSR reporting	Total value of salaries and wages paid to all employees and officers, including all benefits, as reported by the company in its CSR reporting. - include all monetary benefits given by the company such as social security cost, pension, allowances, commissions, share-based payments, etc - information is considered from an annual report when it is reported in the sustainability section or the sustainability section in the company's website - the scope has to be global (100%)
	Women Employees	Percentage of women employees. - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100

	Women Managers	Percentage of women managers. - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage such as top, senior, middle, junior management, then we consider the percentage of middle woman managers - percentage of women managers= number of women managers/total number of managers*100
	Gender Pay Gap Percentage	Percentage of remuneration of women to men, often for doing the same work.
	Salary Gap	CEO's total salary (or the highest salary) divided by average salaries and benefits.
	Average Training Hours	Average hours of training per year per employee. - if the company has reported the total training hours, divide the value by total number of employees and not employees trained only - consider only employee average training hours - include all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked
	Training Costs Per Employee	Training costs per employee in US dollars.
	Non-Executive Board Members	Percentage of non-executive board members.
Governance (11)	Strictly Independent Board Members	Percentage of strictly independent board members (not employed by the company; not served on the board for more than ten years; not a reference shareholder with more than 5% of holdings; no cross-board membership; no recent, immediate family ties to the corporation; not accepting any compensation other than compensation for board service).

	Gender Diversity, Percent	Percentage of female on the board
	Average Board Tenure	Average number of years each board member has been on the board.
	Board Meeting Attendance Average	The average overall attendance percentage of board meetings as reported by the company. - overall board members conduct regular meetings during the year, board meeting average is the attendance average provided details of members attended versus the total number of board meetings held
	Committee Meetings Attendance Average	The average overall attendance percentage of board committee meetings as reported by the company. - various committees formed by the board, conduct regular meetings during the year, committee meeting average is the attendance average provided by details of members attended versus the total number of meetings held
	Policy Executive Compensation ESG Performance	Does the company have an extra-financial performance oriented compensation policy? - the compensation policy includes remuneration for the CEO, executive directors, non-board executives, and other management bodies based on ESG or sustainability factors
	Chief Diversity Officer	Does the company have a chief diversity officer who is a member of the executive committee?
	ESG Report Auditor Name	The name of the external auditor of the sustainability report. - name of the audit firm or independent person who endorses the extra-financial audit statement - name of the body reviewed such as university, academic, expert, external panel or a research center - auditor statement on web-based extra financial or sustainability report with the name - integrated annual report having which has audit statements on its

		environmental and social aspects and audit firm name - data on partial CSR data verified by an external auditor (ex. emission/ employee health and safety/energy)
	Whistle-blower protection	Does the company have a provision or comply with regulations protecting whistle-blowers?
	Integrated strategy in MD&A	Does the company explicitly integrate financial and extra-financial factors in its management discussion and analysis (MD&A) section in the annual report?