Reversed Riches and Matthew’s Curse: The Liability of Status When Organizations Misbehave

Brayden G King¹ and Edward J. Carberry²

Abstract
Merton’s Matthew Effect essay led to a vast literature on the cumulative advantages associated with prestige. Most management research in this vein focuses on the benefits that come to organizations that receive greater recognition for their performance than their lower status counterparts. In this essay, we argue that increased recognition can also be associated with greater exposure to certain risks when an organization engages in misconduct. We identify two specific mechanisms through which these risks emerge and discuss implications for future research on the complex role that status can play in intensifying and mitigating the risks posed by misconduct.

Keywords
status and reputation, organizational misconduct, corporate social responsibility

Merton’s theory of the Matthew Effect has led to a vast literature on the advantages associated with prestige. In his original theory, Merton sought to explain a pattern of cumulative advantages among scientists—“the accruing of greater increments of recognition for particular scientific contributions to scientists of considerable repute and the withholding of such recognition from scientists who have not yet made their mark” (Merton, 1968, p. 56; emphasis added). Sociologists extended the hypothesis beyond the field of science as a more general theory of inequality, especially as it relates to status and reputation, and organizational scholars focused on the benefits that come to organizations that receive greater recognition for their performance than their lower status counterparts (Podolny, 1993; Waguespack & Sorenson, 2011).

The basic proposition of Merton’s theory is that “greater increments of recognition” create benefits for prestigious individuals, inasmuch as they get more credit for successful outcomes and that this, in turn, leads to greater access to resources and future opportunities. Although the increased recognition that comes from high status or reputation certainly provides benefits, recognition can also be a liability for organizations. For example, high-status actors may be more prone to opportunism because they feel secure in their position (Graffin, Bundy, Porac, Wade, & Quinn, 2013). More importantly, however, increased recognition can also create greater exposure to certain risks when an organization engages in or becomes associated with misconduct. These risks include, but are not limited to, the type of risk-seeking behavior that high-status actors engage in when seeking to protect their own status (see Sharkey, in this issue). In this essay, we discuss two sets of mechanisms that can generate these risks.

The first stems from the core mechanism originally posited by Merton for the Matthew Effect: increased recognition. If a high-status firm engages in deviant behavior, such recognition not only focuses attention on an organization’s successes but can also lead to more intense scrutiny and exposure of deviant behaviors (Rhee & Haunschild, 2006), increasing the chances for criticism and punishment. Moreover, inasmuch as recognition increases the breadth of an organization’s audience, high-status organizations may be subjected to more heterogeneity in the types of demands these audiences place on them and attract the attention of actors who may be more inclined to view them negatively (Kovács & Sharkey, 2014). Finally, high-status actors are ideal targets for third parties that want to generate attention for their own purposes. For example, activist groups are more likely to target high-status and reputable companies because they value the attention that these companies bring to their causes (King & McDonnell, 2015).

Second, in addition to increased scrutiny and activist targeting, high-status organizations that engage in deviant

¹Northwestern University, Evanston, IL, USA
²University of Massachusetts Boston, USA

Corresponding Author:
Brayden G King, Kellogg School of Management, Northwestern University, 2211 Campus Drive, Evanston, IL 60208, USA.
Email: b-king@kellogg.northwestern.edu
behavior face a greater likelihood of being blamed, punished, and stigmatized, regardless of the level of exposure (McDonnell and King, 2018). Audiences often rely on status when there is uncertainty about quality, and in the context of organizational misconduct, there is often uncertainty around what happened, a firm’s ultimate culpability, and the severity of the misconduct. This uncertainty will be exacerbated by the incentives for firms to withhold information about the misconduct to try limit the damage. Therefore, status will become particularly important when stakeholders make judgments about the firm’s culpability for the misconduct, and it can increase the likelihood that such judgments will be negative.

For example, high-status organizations face higher expectations, most often relating to the quality of their outputs and adherence to ethical norms of appropriate behavior. When high-status organizations violate these expectations, stakeholders can feel betrayed and misled, and view the firm as hypocritical (Janney & Gove, 2011). Rhee and Haunschmid (2006), for example, found that high-status automakers were more heavily punished for product recalls because they violated consumer expectations about quality. Similarly, Barlow, Verhaal, and Hoskins (2016) found that beer brewers with positive reputations tend to be penalized more for their association with stigmatized categories than less reputable brewers. McDonnell and King (2018) showed that an organization’s status is positively associated with the amount of punitive damages assigned to companies found blameworthy in employment discrimination lawsuits.

In addition to violating expectations, research on blame attribution has revealed that, in line with work in cognitive psychology and heuristics, the more prominent or well-known something is, the more salient it will be, and the more likely it will be that observers will perceive it as causal (Lange & Washburn, 2012). Audiences will more easily attribute blame to higher status firms that are exposed for engaging in misconduct, leading to more severe penalties. Paruchuri and Misangyi (2015), for example, found investors more easily assigned blame for misconduct to firms that were more familiar, arguing that “investors rely on information that is ready available and easily accessible to them.” Because high-status organizations are the focus of greater attention, they also tend to be more familiar to investors, which disproportionally exposes them to such attributions of blame.

Although we have reviewed a number of studies (among others) that demonstrate that organizational status can be a curse when a firm engages in misconduct, other research has found that status can temper negative stakeholder reactions to misconduct (Doh, Howton, Howton, & Siegel, 2009; Flammer, 2012). How do we make sense of these contradictory findings? Two new promising directions in the literature have started to answer this question by focusing on the conditions under which status is positive or negative in the context of misconduct. The first recognizes the heterogeneity of stakeholders and the importance of stakeholder identification, or “the cognitive or emotional connection that stakeholders feel with an organization” (Zavyalova, Pfarrer, Reger, & Hubbard, 2015, p. 254). In their study, Zavyalova et al. (2015) found that stakeholders who identify more with an organization were less likely to evaluate the firm negatively. Their emotional connection to the organizations will make it more difficult for the stakeholder to judge the organization, and they will therefore focus more on the positive. Stakeholders who identify less with an organization face fewer internal obstacles to judging an organization negatively.

The second promising direction for future research has focused on variation in the effects of different types of reputation. Janney and Gove (2011), for example, found that firms with reputations for specific types of corporate social responsibility (CSR) activities (e.g., corporate governance) that then violate a law relating to those activities (e.g., stock options backdating) were punished more severely by investors because they violated expectations. In contrast, this study also found that when firms had reputations for good CSR more generally, investor reactions to options backdating were tempered. Because a general reputation for CSR is multidimensional, violations of specific dimensions can be balanced out by perceived good behavior in other dimensions. The expectations that stakeholders have for specific types of behaviors and their negative reactions when a firm violates those expectations provide a potential explanation for the variation in investor reactions to the emissions scandal at Volkswagen (VW) in 2015 and faulty ignition switches uncovered in General Motors (GM) cars in 2014. Both firms were exposed for misleading consumers, and executives at the highest levels of the organization were implicated. Stakeholders reacted much more negatively to the scandal at VW than GM, even though the latter were responsible for the deaths of over 100 people. VW, however, had a reputation for environmental sustainability, while GM did not have a reputation for safety. The severity of stakeholders’ reactions to VW may stem from expectations associated with a specific kind of reputation.

In addition to attending to how variation in the effects of status is linked to variation in stakeholders and in the type of reputation, it is also important for future research to focus on the broader industry effects when high-status actors engage in misconduct. Are other firms in the industry of a high-status actor more likely to receive scrutiny and be blamed? Reschke and Stuart’s essay in this issue suggests that proximity to high-status actors might benefit their neighbors in conditions of high uncertainty about quality. Similarly, we might expect that blame for misconduct might spread to proximate organizations when there is greater uncertainty about motives and conduct (e.g., Pontikes, Negro, & Rao, 2010).
Finally, we need to better understand the longer term effects of status in the wake of misconduct. How quickly do high-status actors recover from negative events? Are they more or less likely to be stigmatized in the long term? Merton’s Matthew Effect opens the possibility that cumulative advantages accrued through status and reputation may lead to specific types of vulnerabilities that have yet to be thoroughly studied.

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