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RIPPING OFF THE BAND-AID: SCRUTINY BUNDLING IN THE WAKE OF SOCIAL DISAPPROVAL

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Activities that hazard the possibility of increased scrutiny are an unavoidable reality for many firms. While managers may face the need to engage in these activities, there is little research on when managers decide to do so. Existing theoretical perspectives on status quo deviations have not sufficiently addressed how managers order the firm’s essential activities that differ primarily in terms of the scrutiny those activities engender. Drawing from concepts in the accounting and political science literatures, we advance a “scrutiny-bundling” perspective that suggests that firms engage in scrutiny-hazarding action in the wake of social disapproval, assessed in this study via negative media coverage. We further theorize that a strong linkage between the focus of media coverage and the specific scrutiny-hazarding action exacerbates this relationship. We then contend that managers at firms that are either large in size or that perform well relative to their aspirations are less sensitive to social disapproval, and are therefore less likely to engage in scrutiny bundling. We test our hypotheses on a sample of 100 firms in the upstream petroleum industry and find general support for our theories.

Unpopular organizational actions are often unavoidable. Firms must sometimes engage in activities that burden the organization with unwanted scrutiny, but are nevertheless integral to the firm’s strategy. For example, a steel manufacturer may need to run a plant that releases sulfur dioxide and other pollutants, a petroleum firm may need to drill for oil, and a forestry firm may harvest lumber. Unfortunately, the available literature has provided little guidance on when managers will pursue such activities, particularly when the firm is already burdened with stakeholders’ negative affinity, or “social disapproval” (e.g., Bundy & Pfarrer, 2015). Moreover, though there have been substantial recent strides in our understanding of the elements and origins of social approval (e.g., Bundy & Pfarrer, 2015), we still know relatively little about how

social disapproval influences subsequent decision-making (Petkova, Wadhwa, Yao, & Jain, 2014). Even less clear is when managers might engage in activities that hazard potentially burdensome scrutiny from stakeholders, but are essential to their operations.¹

To address the question of when firms engage in activities that, although scrutiny hazarding, are core to their strategy, we draw on evidence from the accounting (Kirschenheiter & Melumad, 2002) and political science literatures (McArdle, 2013), which have suggested that decision-makers are motivated to reduce the duration of negative events, even at the expense of greater momentary negativity. The idiom of “ripping off the Band-Aid” is reflective of this principle, such that there is a perceived benefit to enduring more or sharper pain over the short term in exchange for less pain over the long term. We utilize theory on stakeholder attention (Barnett, 2014;

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¹ Importantly, the necessity of engaging in such activities does not, by itself, connote industry-level stigma (e.g., Mishina & Devers, 2012), but instead points to the costs of doing business across a wide array of task environments.

Madsen & Rodgers, 2015) and event strength (Morgeson, Mitchell, & Liu, 2015) to argue that social disapproval is one key driver of scrutiny-hazarding activity by managers.

In this research, we use the term “scrutiny” in reference to burdensome attention directed toward the firm (Desai, 2011; Fiss & Zajac, 2006), and define “scrutiny-hazarding action” as those activities that are indispensable to the firm’s strategy, but are also likely to burden the firm’s managers by attracting a problematic, aggregate level of scrutiny from stakeholders. We focus on aggregate scrutiny because actions that draw scrutiny from a narrow stakeholder contingent are unlikely to burden the firm sufficiently to prompt managers to engage in activities that might engender more scrutiny (Mitchell, Agle, & Wood, 1997).

Social approval or disapproval arises from stakeholders’ intuitive, affective perceptions about how “likable” a firm is (Bundy & Pfarrer, 2015). Conventional theoretical perspectives have indicated that, when faced with social disapproval, firms may respond by avoiding activities that put the firm “under the microscope” (i.e., increase scrutiny) (Staw, Sandelands, & Dutton, 1981), attempting to distract or placate stakeholders (Zavyalova, Pfarrer, Reger, & Shapiro, 2012), or pursuing a problem-resolution agenda aimed at rectifying the source of the problem (Audia & Greve, 2006). Research has suggested that social disapproval may motivate organizational change (Bednar, Boivie, & Prince, 2013), divestment from stigmatized industries (Durand & Vergne, 2015), or the use of strategic noise to distract from scrutiny (Graffin, Carpenter, & Boivie, 2011). However, these theoretical perspectives and available evidence have focused on actions that deviate from the status quo, and thus have not addressed how firms respond when they cannot deviate or distract from status quo activities, such as when these activities are strategically indispensable. That is, in many instances, managers are unable to sidestep stakeholder scrutiny, and major strategic changes are unwarranted or unfeasible. This raises the question of how social disapproval influences managerial decision-making related to core strategic behaviors that are likely to arouse scrutiny.

We posit that, in the wake of social disapproval, managers will engage in scrutiny-hazarding action to stymie protracted negativity (Bies, 2013; Morgeson et al., 2015) and to exploit stakeholders’ limited capacity to attend and proportionally respond to temporally clustered and repeated events (Barnett, 2014; Miller, 1956). We refer to this phenomenon as “scrutiny

bundling.” We develop this scrutiny-bundling framework in two key ways.

First, we contend that the linkage between social disapproval and scrutiny-hazarding action is stronger when the focus of the media coverage is connected to the scrutiny-hazarding action that managers can pursue. For example, a petroleum company that faces social disapproval for its involvement in environmentally controversial hydraulic fracturing activities (fracking) may hasten its drilling activities because the disapproval due to fracking is closely related to the scrutiny-hazarding action of drilling. On the other hand, the same firm may be only somewhat motivated to hasten disclosure of its plans for new pipeline construction, as the fracking-based disapproval is relatively less directly related to the scrutiny-hazarding action of pipeline construction. Both the increase in drilling and the pipeline construction are activities that are unavoidable and scrutiny hazarding. The relevant question to our research is how the firm’s burden of social disapproval—that is, the magnitude and the subject content—influences when managers decide to engage in scrutiny-hazarding action.

Second, we extend this scrutiny-bundling framework to contend that not all firms are equally pressured to respond to social disapproval in the same way. We theorize that managers at firms that are either (a) large in size or (b) perform well relative to their financial aspirations are less sensitive to the pressure of social disapproval, and therefore are less likely to engage in scrutiny bundling. Therefore, we hypothesize that a firm’s size and its aspiration-relative performance each serve as buffers to attenuate the relationship between social disapproval and scrutiny-hazarding action.

We point to the limits of information processing and stakeholder attention to highlight why managers may pursue a scrutiny-bundling response (i.e., more scrutiny-hazarding action in the wake of social disapproval). We examine these issues within the context of the upstream petroleum industry, using a sample of 100 firms. We augment the findings from our quantitative analysis with color casting by executives in the upstream petroleum industry. That is, to further understand the phenomenon at hand, we presented our research question and findings to executives and asked them whether, in fact, media coverage matters to managers, and how it influences decision-making related to strategic activities. We thereby gain a richer understanding of the scrutiny-bundling perspective that is grounded in both theory and practice.

We make several contributions with our study. First, we contribute to the burgeoning social evaluation literature in management scholarship by underscoring the role that social approval plays in shaping strategic decision-making. As elucidated by Petkova et al. (2014), much of the prior work in this stream has addressed how social evaluations such as reputation lead managers to make decisions aimed at cultivating and protecting this intangible asset (Weigelt & Camerer, 1988), but this has left the general influence of social evaluations on broader decision-making largely unexamined. Our study extends this line of research to demonstrate the temporal nature of managerial decision-making in the wake of social disapproval, such that, when faced with social disapproval, managers might choose to engage in scrutiny-hazarding action, thereby alleviating the burden of prolonged scrutiny.

Second, we extend recent conceptual work on how social approval influences crisis response (Bundy & Pfarrer, 2015) by applying similar reasoning to social approval's influence on strategic decisions relating to core activities. How social disapproval influences a firm's strategy is largely unknown, not least because scholars have attempted to distinguish this affective dimension of social evaluation from the adjacent, but more deliberate, analytical assessments of the firm's appropriateness (i.e., legitimacy) and ability to deliver value (i.e., reputation) (Bitektine, 2011; Bundy & Pfarrer, 2015). Furthermore, many of the studies on social disapproval have focused on organizational responses to "extreme" contexts, such as high-pressure events—for example, crises or the revelation of organizational wrongdoing (e.g., Desai, 2011)—or responses within contested or stigmatized industries (Durand & Vergne, 2015). Such extreme contexts and events are, as implied by the descriptor itself, rare and not representative of a majority of social evaluation circumstances. On the contrary, many firms deal with the chronic but critical pressure from stakeholders in the form of social disapproval (Bundy & Pfarrer, 2015) based on the activities in which the firm engages in its everyday operations. We therefore contribute by theorizing and testing the influence of social approval on decisions relating to activities that are integral to the firm's daily operations, which describe the majority of firm activity.

Third, we expand upon the notion of "buffers" from external pressure (e.g., Audia & Greve, 2006; Desai, 2008) by exploring two contingency factors: firm size and aspiration-relative performance. That outside pressure has a sizable influence on decision-making

is well established. For example, the managerial discretion literature has indicated that stakeholder pressure can constrain discretion latitude such that it influences how managerial decision-making should be interpreted (Hambrick & Finkelstein, 1987; Shen & Cho, 2005). However, missing from this discussion is comparable attention to the protective factors that may mitigate the influences of this pressure on organizations. With this study, we contend that a firm's size and its aspiration-relative performance at least partially insulate it from the hazards of such outside pressure, thereby alleviating some of the constraints on managers' strategic decision-making.

THEORY DEVELOPMENT

Scrutiny Bundling as a Response Strategy to Social Disapproval

Scrutiny consists of attention that is inherently burdensome, because the firm is "under the microscope" (Desai, 2011; Fiss & Zajac, 2006). Importantly, scrutiny is distinct from social disapproval. Following Bundy and Pfarrer (2015: 345), social approval here refers to "evaluators' general affinity toward an organization." This affinity "can be leveraged to build and maintain relationships, engender higher performance, and enhance an organization's chances of survival (e.g., Vergne, 2012; Zavyalova et al., 2012)." Social disapproval is the extent of *unfavorable* affinity that evaluators have toward the organization. This implies that firms facing disapproval are disadvantaged with respect to their potential to build relationships and improve their survival prospects. Following prior research, we measure social disapproval via negative media coverage (Bednar et al., 2013).

Unlike social disapproval, scrutiny does not imply negative judgment. Social disapproval, on the other hand, connotes negative judgment but does not imply the presence of burdensome scrutiny on the firm. Thus, a major difference lies in the evaluative nature of social disapproval versus scrutiny. Whereas disapproval puts a firm at a disadvantage relative to relationships and survival, scrutiny is a concentrated, burdensome form of pressure that comes from focused attention on the firm and its activities.

What is scrutiny-hazarding action? Every firm action falls on a continuum from "very low likelihood of attracting scrutiny" at one extreme to "very high likelihood of attracting scrutiny" at the other. The scrutiny-hazarding action to which we refer circumscribes those activities at the higher end of this continuum. According to theory on stakeholder

attention (Barnett, 2014; Madsen & Rodgers, 2015), stakeholder groups differ and each group may have different perceptions of whether a certain action constitutes a problem that warrants scrutinizing the firm. As an example, clear cutting in the forestry industry may attract scrutiny from some stakeholder groups, such as environmental activists or people who live in the communities next to the clear-cutting activity, because these stakeholder groups view clear cutting—although core to many forestry company's operations—to be incompatible with their values or beliefs. Thus, clear cutting represents scrutiny-hazarding action. Similarly, product testing in the cosmetics-manufacturing industry may attract scrutiny from animal activist groups, such as PETA, because these groups view animal testing as unethical and cruel, yet product testing is a U.S. Federal Drug Administration requirement. As such, our threshold for scrutiny-hazarding action is not whether just one stakeholder group directs scrutiny toward the firm, but whether the *aggregate* scrutiny that is expected to arise as a result of an action is burdensome for the firm.

Distraction of stakeholders is substantially more difficult and less feasible when managers are obligated to execute scrutiny-hazarding action because these activities are indispensable to the firm's strategy. The strategic importance of the scrutiny-hazarding action and its close conceptual linkage with what the firm is "known for" diminishes the utility of strategic noise (Graffin et al., 2011) and other distracting and placating techniques (Zavyalova et al., 2012) in minimizing the hazard of such scrutiny. This is because stakeholders carefully attend to the salient aspects of the firm that best capture their interests, and a firm's core activities are central among these (Hosmer & Kiewitz, 2005). This implies that the activities in question cannot be circumvented or exchanged for activities that are less scrutiny hazarding. As suggested to us by one vice president of engineering, in some instances, "There is no compromise short of getting out of the business that satisfies the press. Companies running their business within the regulations will continue to ensure they do so, even in the face of opposition."

To illustrate, a steel manufacturing firm releases sulfur dioxide, a pollutant that can become trapped between buildings and the ground, in the process of metalworking. This sulfur dioxide is an unwanted byproduct of the steel manufacturing process, and how managers choose to deal with this byproduct, or how much they choose to produce knowing this byproduct can be harmful, represents decisions related

to everyday operations of the plant, and not simply a one-off decision resulting from a crisis or organizational wrongdoing (Desai, 2011).² Thus, managers make decisions about when to manufacture more (or less) steel—and therefore when to produce more (or less) byproduct. Similarly, petroleum companies rely on two activities for operation—accessing and developing petroleum—and the latter often evokes controversy because of the impact its extractive nature has on the environment. In other words, barring a radical change of business practices (e.g., new processes for steel manufacturing, economically viable alternatives to fossil fuels), a firm's immediate circumstances may induce managers to hasten more scrutiny-hazarding action (e.g., manufacturing more steel and releasing more sulfur dioxide, and increasing its drilling program and extracting more petroleum resources).

Our contention is that scrutiny-hazarding action describes activities that are integral to the firm's strategy, but may place the firm at risk for burdensome scrutiny in the short term. Because scrutiny-hazarding action describes activities that are part of everyday operations, and thus unavoidable, the open question is: When do managers decide to engage in scrutiny-hazarding action?

Context specificity of scrutiny-hazarding action.

Any particular activity may attract scrutiny in one task environment, yet have a different, less negative effect in a different task environment. For example, in the petroleum industry, resource development (including drilling and production) tends to attract significant scrutiny, as development is a notoriously controversial issue. By contrast, in the real estate industry, resource development (including building homes and office complexes on property the developer already owns) may be viewed more favorably. As such, our aim is not to point to a list of universally applicable scrutiny-hazarding actions, but rather to develop our understanding of scrutiny-hazarding action by zeroing in on a specific context and elaborating how managers' use of scrutiny-hazarding action is influenced by social disapproval.

We contend that scrutiny bundling represents a response to social disapproval in which managers hasten scrutiny-hazarding action. Although this

² Our conceptual framework is based on "everyday" actions, rather than the extreme cases of organizational crises. Nevertheless, the crisis response literature provides an insightful adjacent logic. Stakeholders tend to perceive crisis responses as genuine and effortful when they are closely related to the crisis, making these more effective at placating stakeholders' concerns (Zavyalova et al., 2012).

temporally condenses scrutiny of the firm, it does so to limit the aggregate, burdensome effect of scrutiny. Embedded within this expectation are two fundamental assumptions, which we discuss in the following paragraphs.

The perceived hazard of protracted scrutiny.

The first assumption underpinning our framework is that protracted scrutiny toward the firm presents more of a threat—from management’s perspective—than does a briefer, higher magnitude of scrutiny. The accounting and political science literatures provide a worthwhile starting point for this conceptual development.

One well-known concept in the accounting literature is the phenomenon of the “earnings bath” (Kirschenheiter & Melumad, 2002), in which managers amplify a weak earnings report by significantly underreporting earnings in a particular time period, thereby facilitating a stronger earnings report in the future. In particular, a firm’s earnings performance in a given quarter is compared against a “consensus estimate” of analysts (Beshears & Milkman, 2011). The failure to achieve an earnings target casts doubt on the firm’s ability to deliver consistent performance over time (Fox, 1997; Graham, Harvey, & Rajgopal, 2005). Because of the hazards associated with a negative earnings surprise, managers may tweak the firm’s financial statements in the wake of disappointing earnings (Brown & Pinello, 2007), shifting future expenses and write-offs to the current period so that the firm’s future net earnings imply an upward trajectory. The shifting of these burdensome expenses to the already problematic period of underperformance is the basis for the “big bath” or “earnings bath” notion. Other sources have suggested that some new CEOs may engage in similar behavior, assuming greater expenses at the outset to allow for a seeming improvement in returns over their tenure (Blackstone, 2014).

The notion of the earnings bath in the accounting literature parallels a similar phenomenon in the political science literature. In the political science sphere, the rapid-fire revelation of bad news has been underscored as a means of moving past one’s transgressions in order to clean up one’s image going forward. For example, over the course of the 2016 U.S. Democratic presidential primary and the ensuing general election campaign, the periodic revelations about Hillary Clinton’s use of a private email server during her tenure as secretary of state to allegedly send classified correspondence may have harmed the public’s perception of her more than a single, dramatic revelation might have (Bradner, 2015).

Similarly, throughout the 2012 American presidential campaign, then-presidential candidate Mitt Romney was recorded (Moorhead, 2012) making what was generally viewed as a disparaging remark about a wide swath of the American electorate:

There are 47 percent who are with [President Obama], who are dependent upon government, who believe that they are victims . . . who believe that they are entitled to health care, to food, to housing, to you-name-it . . . And they will vote for this president no matter what.

In the wake of the backlash of social disapproval from this statement, Romney’s campaign released his 2011 tax returns just days later. Though Romney was originally reluctant to reveal details of his wealth, several journalists posited that Romney’s team timed the release strategically, believing that the added scrutiny would be less damaging if it came amid the fallout surrounding his “47 percent” comment (Cillizza, 2012).

Within the corporate context, Tylenol and parent company Johnson & Johnson faced a difficult public relations episode several decades ago. In 1982, an individual who was completely unrelated to either company inserted cyanide into Tylenol capsules, and precipitated the deaths of seven people who used the product. Once this information became public, Johnson & Johnson’s CEO James Burke publicly disclosed the weaknesses of the Tylenol bottle design as part of the problem, and instituted a preemptive recall before the full extent of contamination was known (Moore, 1982). These preemptive actions ultimately cost the company an estimated \$100 million (Wharton School, 2012). However, the decision to hasten revelations about bottle design flaws and thus increase the scrutiny Johnson & Johnson faced might have minimized the cumulative fallout that these separate revelations would have garnered if they were temporally more distant. Tylenol recovered from the incident, and increased its share of the analgesic market to 35% by the end of the following year.

The available theory and evidence in the management literature also suggests that negative stimuli can be more problematic when protracted, or drawn out over time. Morgeson et al. (2015) asserted that organizational events can be variously disruptive, critical, and novel, and that the duration of a problematic event—such as a protracted lawsuit—is proportional to its impact on the firm (Morgeson & DeRue, 2006; Morgeson et al., 2015). As Morgeson et al. (2015: 527) noted, “When events linger, additional

attention and resources may be needed to ultimately respond to the event itself." In aggregate, the preceding argumentation underscores that managers may perceive scrutiny bundling as a worthwhile tradeoff of "more pain now" in exchange for "less pain over time"—similar to the notion of "ripping off the Band-Aid."

Attention fatigue and stakeholders' limited range of response. The second assumption is that managers perceive that temporally clustering scrutiny-hazarding action will actually help reduce this perceived hazard of such scrutiny over time. Although we are not concerned with the normative aspects of scrutiny bundling—that is, whether it is effective at reducing long-term scrutiny—it is worth considering why, when faced with social disapproval, managers choose to engage in more scrutiny-hazarding action. The notion that it may be preferable to minimize the duration of a negative event is an intuitive concept, with supporting evidence in both the psychology and management literatures.

Evidence from psychology suggests that, when an individual endures an uncomfortable, painful, or otherwise negative event, clustering the negative sensations toward the beginning of the experience creates a perception of improvement, so that the individual's memory of the event is more positive than if the negative sensations had been evenly spread throughout the whole experience (Ariely, 1998; Redelmeier & Kahneman, 1996). Evidence is similar in the management literature, and suggests that managers sometimes strive to deliver bad news swiftly (Bies, 2012), but may, at other times, drag their feet in delivering negative information to outside stakeholders (Black, 1976).

Furthermore, stakeholder attention is bounded, and stakeholders may not proportionately scrutinize or be influenced by negative stimuli when it is temporally concentrated. As one journalist summarized, "There is only so much bad news people can take in all at once, so you might as well cram all the bad stuff" into a shorter time period (McArdle, 2013). The idea that individuals are limited in their ability to attend to multiple stimuli at once has recently been applied to theory of stakeholder attention within management research (Barnett, 2014; Madsen & Rodgers, 2015). Relevant to our framework is Barnett's (2014) "noticing" phase, which suggests that stakeholders may not seek to process additional negative information even when it is readily observable. That is, not all stakeholders are equally proactive at taking in additional negative information as such stimuli accumulate. In the "assessing" phase, stakeholders may be variously

"cognitively busy" such that their limits of information processing prevent them from proportionately increasing their unfavorable response to additional negative revelations about the firm. Finally, in the "acting" phase, Barnett posited that, beyond a certain threshold of negative stimuli, stakeholders may perceive their efficacy in bringing about change as diminished should they decide to take action, because the aggregate problem has become too big to meaningfully influence. All three of these elements suggest that there are diminishing implications for stakeholder responses with incrementally greater negative stimuli in a narrow time period.

The preceding sections suggest that, in the wake of social disapproval, managers will perceive the hastening of scrutiny-hazarding action as worthwhile, metaphorically "ripping off the Band-Aid" in an attempt to reduce the aggregate burden of scrutiny over time. Regardless of whether such a course of action is effective at minimizing aggregate scrutiny over a period of time, we expect that the limited prospects that managers face will lead them to hasten scrutiny-hazarding action subsequent to social disapproval (i.e., engage in scrutiny bundling). Formally stated:

Hypothesis 1. Social disapproval is positively related to scrutiny-hazarding action.

Conceptual Closeness between the Focus of Media Coverage and Scrutiny-Hazarding Action

An important contingency on the predicted linkage between social disapproval and scrutiny-hazarding action is the conceptual closeness between the two. If the relationship between these two elements is tenuous, we expect a weaker relationship between social disapproval and scrutiny-hazarding action, for two reasons. First, if evidence mirroring the subject of the earlier social disapproval were allowed to continue to "trickle out" incrementally over time, the danger of confirming a stakeholder's initially unfavorable perception would be greater (e.g., Tversky & Kahneman, 1974). The second reason is more nuanced.

Individuals are less prone to proportionately attend to temporally clustered stimuli relative to stimuli that are spread out over time, and the conceptual closeness of the clustered stimuli further complicates the process of maintaining attention. Stakeholders are likely to perceive a series of similar, clustered events as "more of the same," and not attend to these events as much as they might to the same events spread out over time. Weick, Sutcliffe, and

Obstfeld (2005) underscored that individual observers must first parse a stream of events into separate, relevant stimuli before focusing on them—a task made more difficult when the events are tightly clustered in a short span of time.

For instance, if a forestry firm experiences social disapproval because of its deforestation activities (social disapproval related to a lack of environmental stewardship), we expect managers to subsequently engage in activities that might also indicate a lack of environmental stewardship—for example, construction of more logging or transport roads, or logging facilities. The capacity for stakeholders to notice and proportionally respond to each additional bit of news related to a lack of environmental stewardship is diminished relative to their capacity to attend and respond to similar events spread out over time.

In other words, the presence of social disapproval based on lack of environmental stewardship might spark managers to engage in other scrutiny-hazarding, environmentally related activities. In contrast, if the same firm cultivated social disapproval because of, for example, its poor treatment of employees, managers would not hasten environmentally related scrutiny-hazarding action, because there is less of a chance that this (largely unrelated) action would shorten the time span of the scrutiny. In the second example, the conceptual closeness of the social disapproval and scrutiny-hazarding action is weaker because the firm's "poor treatment of employees" is not related to a lack of environmental stewardship. The strongest relationship within this scenario would likely be when social disapproval stems from deforestation activities, and the firm is able to subsequently hasten or increase those very same deforestation activities in the short term, to avoid delayed scrutiny if those same activities were done at a later time.

We contend that, when the subject of the social disapproval is closely tied to the scrutiny-hazarding action available to the manager, managers will be more likely to engage in scrutiny bundling in an effort to minimize the duration of the scrutiny experienced by the firm. This conceptual argument was partially supported by an individual with experience in the chief operating officer role, who posited, "I would say that [negative media coverage] could cause my company to more closely internally monitor and report on certain aspects of our operations—especially areas that may be the focus of the media attention." The conceptual closeness between the subject of the social disapproval and the scrutiny-hazarding action may increase the perception of utility

from scrutiny bundling because it effectively enables managers to more quickly "rip off the Band-Aid." Thus:

Hypothesis 2. The relationship between social disapproval and scrutiny-hazarding action is stronger (more positive) the more the focus of the media coverage is conceptually related to the scrutiny-hazarding action.

Buffering Factors

Not all decision-makers are affected equally by social disapproval from external observers. Managers' actions may be influenced by two key attributes: (1) the consistency of the feedback that filters into their decision processes, and (2) the extent to which they believe that the firm will be harmed by failing to take action. When feedback is inconsistent, it is less likely to demonstrably influence managerial decision-making. Signals are more influential when they are consistent (Heil & Robertson, 1991), and evidence has suggested that the same applies to managers' interpretation of the veracity of performance feedback signals. For example, the literature has suggested that the effect of negative media coverage (a way of assessing social disapproval) on an individual firm can be diluted if such negative coverage is endemic across numerous firms within an industry (Zavyalova et al., 2012), or if a firm in a stigmatized product category attempts to establish presence in a nonstigmatized category (Vergne, 2012). That is, certain factors are known to buffer managers from being sensitive to social disapproval, diluting its effect, and therefore the presence or absence of those factors influence how vulnerable firms are to social disapproval. We argue that the tendency for social disapproval to spur scrutiny-hazarding action is contingent on the firm's sensitivity to the social disapproval; this sensitivity, in turn, depends on the consistency of performance feedback provided to managers, and whether—in light of this signal consistency—managers perceive that the social disapproval constitutes an exigent threat that warrants action.

Social disapproval amounts to stakeholders' general lack of affinity toward an organization (Bundy & Pfarrer, 2015), and, as such, the crux of its influence on managerial decisions arises from managers' beliefs that the disapproval constitutes a hazard that may inhibit the firm's core operations. However, the extent to which decision-makers perceive that the firm is "doing well" mitigates this hazard, because

a firm that is achieving its core performance objectives may be less sensitive to the opinions of outside observers. In the subsequent sections, we elaborate on the role of a firm's aspiration-relative performance, as well as its size—vis-à-vis its aggregate resource endowment—as factors that attenuate the relationship between social disapproval and scrutiny-hazarding action. Both of these factors influence the extent to which managers believe the firm is sufficiently vulnerable to warrant remedial action.

Aspiration-Relative Performance as a Buffer

A firm's financial performance constitutes a credible signal to decision-makers that the firm is in a strong strategic position. Indeed, prior arguments and evidence have suggested that a firm's financial performance is perhaps the quintessential indicator of organizational success (e.g., Bednar et al., 2013). In their study of how strategic change is influenced by negative media coverage, Bednar et al. (2013) proposed that strong financial performance "muddies" the signal from negative media coverage, thereby weakening its effect on inducing strategic change. Though our research question differs from that of Bednar et al. (2013), in that we focus on social disapproval's influence on everyday operational decisions via scrutiny-hazarding action, the fundamental premise that financial performance affects managers' sensitivity to the firm's social approval remains salient. To this point, we have discussed social disapproval as a behavioral pressure upon a firm's decision-makers. In line with this reasoning, an aspiration-relative performance metric aligns with current theory regarding the salience of performance aspirations on firm behavior (Bromiley & Harris, 2014) because of both the evidence provided by the signal itself as well as what this information implies for the firm's survival prospects.

Decision-makers must make sense of the signals received from various feedback sources as part of the decision process (Lucas, Knoblen, & Meeus, 2018), and this process is more straightforward when these signals are aligned (Barron & Rolfe, 2012). Both social disapproval and poor performance relative to aspirations constitute forms of negative performance feedback, providing a consistently unfavorable signal as to the firm's performance, as well as adding to the perception that the firm is vulnerable unless it takes remedial action. This addresses both conditions that we expect influence managers' sensitivity to the disapproval, and, as such, firms that are underperforming financially are likely to be especially

motivated to engage in scrutiny bundling by pursuing greater levels of scrutiny-hazarding action in the wake of social disapproval.

Conversely, superior financial performance motivates a preference for the status quo, because threat exigency is reduced when the firm performs well relative to its aspirations (Audia, Locke, & Smith, 2000; Lant, Milliken, & Batra, 1992). Strong performance may support a belief in the correctness of current decision-making processes and outcomes (Hambrick, Geletkanycz, & Fredrickson, 1993), which in turn could prompt inertial tendencies and make relevant decision-makers less sensitive to social disapproval. Similarly, strong aspiration-relative performance may make decision-makers feel less vulnerable to social disapproval, as directly engaged stakeholder groups (e.g., employees or shareholders) may be perceived as less likely to exert pressure on a management team that produces strong financial performance (Bundy & Pfarrer, 2015). Moreover, the conflicting signal of superior financial performance in the wake of social disapproval undermines the consistency of unfavorable feedback about the firm's performance, thereby weakening the perception that action is needed.

Because of these two conditions—inconsistency of feedback and a lesser perceived threat of social disapproval—when the firm has surpassed its financial performance aspirations, managers are less likely to be concerned about the pressure of incremental social disapproval, and will be less motivated to engage in scrutiny bundling. For these reasons, we hypothesize that high performance relative to aspirations attenuates the relationship between social disapproval and scrutiny-hazarding action.

Hypothesis 3. The relationship between social disapproval and scrutiny-hazarding action is weaker (less positive) the stronger the firm's aspiration-relative performance.

Firm Size as a Buffer

Firm size is a second key factor that both adds to managers' feedback about the firm's performance and influences the extent to which managers perceive the firm as vulnerable to social disapproval and the scrutiny that may follow. On the one hand, firm size can serve as a signal of organizational success (Eisenhardt & Schoonhoven, 1990) and legitimacy (Greve, 2008; Stinchcombe, 1965). Thus, not unlike our prior argument that strong aspiration-relative

performance muddies the signal of social disapproval, a firm's large size may similarly make the firm's managers less sensitive to the signal of social disapproval. Managers at large firms may be more likely to perceive past firm actions as a necessary part of establishing a noteworthy presence in the industry, and feel that those decisions were justified due to the organization's size.

Additionally, large firms face distinct exigencies and advantages relative to their smaller counterparts. For example, larger firms might attract or acquire resources more easily, due, in part, to their elevated legitimacy and prestige relative to smaller firms (Sherer & Lee, 2002). Larger firms may also be seen as easy targets for social disapproval if they represent exemplifications of a stigmatized category (Jonsson, Greve, & Fujiwara-Greve, 2009; Vergne, 2012)—there is a larger metaphorical “target on their back.” Nevertheless, there are two key reasons why managers of large firms are less likely to scrutiny bundle.

First, large firms may be less vulnerable or sensitive to unfavorable judgment (i.e., social disapproval) (Chen & Hambrick, 1995). In particular, any single given pressure is less likely to threaten a large firm's short-term survival relative to a smaller firm (Audia & Greve, 2006; Levinthal, 1991). While large firms may represent easy targets of social disapproval, any given attack is perceived by managers as less threatening to the firm's survival (Cyert & March, 1963; Hambrick, MacMillan, & Day, 1982). As such, managers of larger firms may be less influenced by social disapproval compared to managers of smaller firms. Second, and similarly, larger firms with greater legitimacy (Sherer & Lee, 2002) may be able to take the social disapproval “in stride,” as outside stakeholders' affinity toward the firm—whether positive or negative—will not be the sole determinant of the firm's success or failure (Meyer & Zucker, 1989). As such, social disapproval is less likely to prompt a scrutiny-bundling response via engagement in scrutiny-hazarding action.

Indeed, small firms are more objectively vulnerable to external pressures such as social disapproval, in that they are relatively less likely to weather a storm of negative affinity compared to their larger counterparts (MacMillan, 1980; Singh, 1990). Moreover, the fact that managers of small firms are likely to be sensitive to this reality points to both the critical levers of perceived vulnerability and consistent negative feedback that we hypothesized will prompt scrutiny bundling. Small firms are more predisposed to react to perceived threats because of

their increased vulnerability in the face of such threats (Cooper, Willard, & Woo, 1986).

As such, we expect that managers of small firms facing social disapproval are particularly motivated to engage in scrutiny-hazarding action, whereas managers of large firms are less motivated by social disapproval, and are therefore less likely to take such action. For these reasons, we contend that a firm's size attenuates the relationship between social disapproval and scrutiny-hazarding action.

Hypothesis 4. The relationship between social disapproval and scrutiny-hazarding action is weaker (less positive) the larger the firm's size.

METHODS

Sample Context: The Upstream Sector of the Petroleum Industry

We test our conceptual framework in the context of the upstream petroleum industry. This sector entails accessing and developing hydrocarbons, and includes activities for “exploration for crude petroleum and natural gas” as well as “the production of oil through the mining and extraction of oil” (OSHA, 2013). This industry is an appropriate context for several reasons. First, demand for petroleum resources is increasing in developed, and especially developing, economies, and petroleum resources are also vital to other, nonenergy industries, such as agriculture, clothing and textiles, sports footwear and apparel, and cosmetics manufacturing (U.S. Energy Information Administration, 2015). Further, the petroleum industry is an established one in which the utility of the key resource is persistent over time, implying that incumbents in this industry know what key resource is valuable (petroleum) and what capabilities are needed to extract value from that resource (resource access and development), which has important implications for scrutiny-hazarding action.

Second, this industry receives varying amounts of positive and negative media coverage, providing the variance necessary to examine the differential influences of social disapproval. In particular, the resource development activity (i.e., oil drilling and production) is an increasingly contentious activity in the modern sociopolitical landscape, providing an appropriate setting to test the “scrutiny-hazarding” feature of our framework.

Third, as noted in the industry description above, the upstream petroleum industry relies on two dominant activities—gaining *access* to petroleum

resources (i.e., exploration of potential fields that may or may not contain sufficient petroleum to extract at a later date), or *development* of petroleum resources (i.e., extraction and production of petroleum from fields with known petroleum reserves). These two activities, referred to in this research as resource access and resource development, are stage-linked as part of the resource cultivation process (Stadler, Helfat, & Verona, 2013). Both activities carry economic risk, but resource development activities are more visible and have greater potential to generate controversy because resource development represents the extractive activities (drilling) required to produce a barrel of oil or equivalent (natural gas; production). Therefore, resource development activities—drilling and production—carry a greater hazard for scrutiny than do resource access activities (exploration). We later discuss this in greater detail as it pertains to our dependent variable.

Data Collection

Data for this study were collected from Canadian firms operating in the upstream sector of the petroleum industry. To create the sample, we used Compustat to identify firms operating in the standard industrial classification 1311 and headquartered in Canada from 2003–2010, inclusive. We then accessed Canada's System for Electronic Document Analysis and Retrieval database and searched company filings for each firm-year. This represents an appropriate sample for two key reasons. First, Canadian reporting standards are unique because firms are required to disclose annual dollar figures allocated for both resource access and development activities. As indicated above, access and development are the two main strategic activities for firms operating in this industry (Bass & Chakrabarty, 2014), and represent firm efforts to either access new resources through largely geologically based efforts (access) or develop existing resources through largely engineering-based efforts (development). Second, Canada is resource-rich in petroleum and has the third largest oil reserves in the world, behind Saudi Arabia and Venezuela (WorldAtlas, 2015). Thus, because the country has a large amount of oil reserves that have not yet been accessed or developed, firms operating in Canada make decisions regarding the extent to which they invest in resource development relative to resource access activities that constitute the firm's business activities portfolio.

Data for financial allocations toward access and development were collected from a variety of company

reports, including the annual report, the annual information form, and disclosure of oil and gas activities. The result of these efforts was a unique database of 631 firm-year observations from 149 firms, with Canadian dollar amounts ascribed for access and development activities for each firm for each year. In addition to these petroleum data, we collected firm data from Compustat and various media sources (described in detail below). After accounting for missing data on key constructs, our sample was 326 firm-year observations from 102 firms.³

Dependent Variable: Scrutiny-Hazarding Action

In the upstream petroleum industry, a firm's relative focus on the two core activities of this industry—resource development and resource access—provides an appropriate measure for scrutiny hazarding. *Resource development* within the upstream sector is defined as the "activities aimed at developing oil and gas reserves to the point where they are commercially usable" (Stadler et al., 2013: 1787). Following industry standards, this activity describes petroleum development, which refers to "the drilling and bringing into production of wells" (Langenkamp, 1994: 105), and thus includes both drilling and production. *Resource access* within the upstream sector is defined as the "activities directed toward obtaining oil and gas reserves" by seeking "to obtain new physical resources" (Stadler et al., 2013: 1787). Using industry nomenclature, this activity describes petroleum exploration, which refers to "studying large regions that do or could contain petroleum, identifying progressively smaller areas of progressively greater interest in these until a prospect worth drilling has been identified" (Chapman, 1983: 67).

While both activities involve risk in the form of uncertain economic investment to some extent, resource development significantly increases the

³ We ran multiple *t*-test comparisons between the final achieved sample and those observations that were dropped due to missing data. In all cases, the achieved sample included all 326 observations from our analyses. We ran the tests on our dependent variable (ratio of dollars spent on resource development to resource access activities), return on assets (ROA), and firm size. The dropped set included 289 observations and 287 observations, respectively. For the dependent variable and ROA, the test statistics were nonsignificant, and the test statistic was significant for firm size. This is not a surprising finding, as we expect firms that report development and access investments and that receive media coverage will be larger than those firms for which we lack such data.

hazard of scrutiny from external stakeholders because of the public-facing nature of development activities. Resource development involves the physical act of extracting petroleum resources (i.e., drilling) via producing oil wells (production), which increases the potential for scrutiny because such activities are readily observable (De Bondt & Thaler, 1990; Waldron, Navis, & Fisher, 2013), and because oil drilling and production are often associated with environmental degradation and safety hazards (Pennington, Pennington, & Bennett, 2009; World Wildlife Fund, 2016). Resource access activities, by comparison, largely entail geological surveying, and collecting and interpreting seismic data. Although a necessary precursor to resource development (Stadler et al., 2013), these activities are not as observable nor inherently controversial, and therefore do not carry the same scrutiny hazard compared to resource development activities.

Most firms in our sample engage in both resource development and resource access activities, and decision-making regarding investment in one influences investment in the other—for example, investment in development comes at the expense of access, and vice versa. A unique attribute of our Canadian data is that capital budgets for firms in this industry typically represent a ratio of resource development to resource access activities, and thus we capture the relative nature of the relationship between these two activities in our dependent variable. This relative nature was indicated to us by a petroleum engineer with over 35 years of experience in the industry, who advised, “Typically, oil companies’ budgets are approved annually and there’s a broad division of the capital between exploration, production, and facilities and infrastructure,” with the last category representative of the firm’s property, plant, and equipment, rather than a strategic activity. Thus, our dependent variable captures strategic decision-making relating to investing in one activity in relation to the other.

We therefore adopt a ratio of dollar amount invested in resource development divided by dollar amount invested in resource access. We first incremented all development and access investment values by 1 to eliminate zero values, and then log-transformed each value to normalize the variable’s distribution, consistent with Stadler et al. (2013). Due to the presence of zero values after the log-transformation, we incremented all development and access investment values by 1, and then created a ratio of investment in development activities to investment in access activities.

Independent Variables

Social disapproval. The media plays a particularly important role in disseminating otherwise unobservable information about the firm and its activities, and is the most frequently studied external evaluator of organizations (Bitektine, 2011). We therefore follow precedent in prior work on social evaluations by using negative media coverage as a gauge for overall social disapproval (Durand & Vergne, 2015; Vergne, 2012).

The media’s reach and influence has grown considerably in recent years due to advancements in mobile device technology and computer use (Mitchell & Page, 2015). As outlined by Bednar et al. (2013), the media serve three major functions when they report on businesses: (1) they publicize the views of external stakeholders, allowing different parties to influence others’ perceptions; (2) they report on issues and events within the “corporate landscape”; and (3) they serve as an “independent investigator” or “watchdog” for society.

To collect media coverage data, we used the list of firms created in our description of the petroleum data above, and, largely following prior precedent (Bednar et al., 2013), we searched for media coverage of the sample firms in *The Wall Street Journal*, *Businessweek*, *Forbes*, *The New York Times*, and *The Washington Post*. Since our sample is Canadian oil and gas firms, we also included two Canadian newspapers, *The Globe and Mail* and *National Post*, as well as the industry trade publication *The Daily Oil Bulletin*. We extracted the text of these 34,104 articles, and, for each article, measured the content of “negative emotion” using the Linguistic Inquiry and Word Count (LIWC) software program. To help ensure that we only included articles for which the content pertained to the focal firm, we followed precedent (Bednar et al., 2013) by excluding articles that mentioned more than four firms or in which the focal firm was not mentioned in the first 25% of the article, which resulted in a total of 6,152 articles. To investigate the relevance of the articles for the firms of interest, we randomly selected 180 articles (3% of our final sample of articles) and manually coded them for whether they dealt primarily with the firm of interest. A total of 169 out of the 180 (93.88%) articles primarily reported on the focal firm, suggesting that our media data are relevant to our sample. The resulting measure was aggregated by firm-year, using the average of all articles’ negative valence scores in a given firm-year. We adopted a one-year lag for our variable, as we are interested in how the prior year’s

coverage influences the firm's current activities (Bednar et al., 2013).

The overall affective tone of any given media report may be positive or negative, though there are generally observable trends within a given industry (Deephouse, 2000; Zavyalova et al., 2012). Within the context of our sample, positive coverage typically relates to the "value-adding" characteristics of the industry, such as the critical and valuable nature of petroleum resources to a variety of industries, including energy, agriculture, clothing and textiles, sports footwear and apparel, and cosmetics manufacturing (U.S. Energy Information Administration, 2015). An example from the data is as follows:

The company drilled one successful well that tested at 230 [barrels] a day and is awaiting tie-in . . . it has been making progress on the planning and development of a polymer-based flood for the same field . . . [the company] plans to drill a core well and has continued to make progress on the [steam-assisted gravity drainage] pilot application . . . The company said all of these efforts are focused on its goal of converting resources to reserves, which it believes will add considerable dollar value per [barrel] of oil in the ground.

Negative coverage, on the other hand, typically relates to the controversial "value-depleting" aspects of the industry, such as issues surrounding environmental practices, from the way resources are extracted from the earth (e.g., hydraulic fracturing or "fracking") to the industry's responsibility for environmental accidents (e.g., oil spills). As an example from the data: "Oil spill still poisoning wildlife years later, native band charges; Doig River hunters say they're finding animals with swollen, black intestines and possible tumors."

Focus of media coverage. To capture the extent to which the content of the coverage was related to the scrutiny-hazarding action of *resource development*, we measured the *focus of media coverage* from which we measured social disapproval. We first counted the number of times a set of development-related word segments appeared in each news article. These development-related word segments address concepts that capture the major parts of the petroleum resource development process (drilling and production), and include "drill," "exploit," "produc*," "develop," "gather," "storage," "export," and "extract." As an illustrative example from the data: "The company expects to gain significant operating synergies within the development, which will create the potential to drive exploitation

opportunities similar to those seen at Primrose over the last decade." We divided the total count of development-related word segments by the overall word count for the article, and then averaged these article-specific development-focused content scores within-firm over the calendar year, resulting in a measure consistent with the other firm-year variables in our models. Consistent with our measure of social disapproval, we lagged this measure by one year.

Aspiration-relative performance. The aspirational performance level was computed based on the assumption that managers attend to both industry performance and their own firm's performance when setting organizational aspirations, and that sometimes one is more influential for aspirations. Specifically, we used the "switching model" of aspiration level, employed in numerous prior studies (for a review, see Bromiley & Harris, 2014), as represented in the following formulae:

$$\text{Aspiration}_{i,t-1} = \text{IndustryROA}_{t-2} \text{ if } \text{ROA}_{i,t-2} < \text{IndustryROA}_{t-2}$$

$$\text{Aspiration}_{i,t-1} = 1.05 * \text{ROA}_{i,t-2} \text{ if } \text{ROA}_{i,t-2} > \text{IndustryROA}_{t-2}$$

That is, when the firm's performance—captured as ROA—in the prior period ($t-2$) has fallen short of the industry average performance in that period, the firm's aspirational level in the next period ($t-1$) is set equal to the industry's average performance in the prior period ($t-2$). However, when the firm's performance in period " $t-2$ " has exceeded industry performance, the aspirational target for period " $t-1$ " is set equal to the firm's prior performance at time " $t-2$," multiplied by 1.05, as firms are expected to adjust their aspirations upward as their performance improves. Then, aspiration-relative performance is operationalized as the firm's actual performance in " $t-1$ " minus the aspirational level in period " $t-1$." Due to the presence of outliers, we winsorized to the 99th or 1st percentile (Wooldridge, 2010).

Firm size. We measured firm size via the natural log of total assets. Initial models suggested that firm size may induce the possibility of multicollinearity due to high variance inflation factors associated with the variable. We addressed this possibility by orthogonalizing firm size utilizing a modified Gram-Schmidt procedure, via the "orthog" command in Stata 14.0, consistent with prior literature (e.g., Greve & Seidel, 2015; Pollock & Rindova, 2003).

Controls. Due to the fact that slack can influence investment decisions (Greve, 2003), we controlled for *financial slack* by taking the difference between current assets and current liabilities (Mishina, Pollock, & Porac, 2004). Similarly, we controlled for the *debt-to-equity ratio* (George, 2005). We also controlled for *total inventory*, as this could influence whether a firm emphasizes development or access investment. Firms that are growing their sales may invest differently compared to slower-growth firms, so we controlled for *sales growth rate*. Due to the influence of quantity of media coverage on firm outcomes (e.g., Kulchina, 2014; Pollock & Rindova, 2003), we controlled for the *overall word count* of all articles included in our analysis for a particular firm. To better isolate the influence of social disapproval rather than social approval, we controlled for *positive media coverage* by including the “positive emotion” score from the LIWC analysis. Both the overall word count and positive media coverage variables were lagged one year. Finally, we included *year dummies* to control the influence of time.

Analysis and Results

We adopted a fixed-effect specification to account for unobserved firm-level heterogeneity (Wooldridge, 2010), and used robust standard errors. All independent and control variables were standardized prior to entering into the regression equation, and prior to calculating interaction terms (Cohen, Cohen, West, & Aiken, 2003). Due to the presence of multivariate outliers, we excluded observations that were greater than ± 3 *SD* of the standardized residuals ($n = 15$, $n = 2$). As we will discuss in the robustness analysis section here following, we employed alternative estimation techniques, which led to largely similar results.

Table 1 presents the descriptive statistics and correlation matrix for the variables used in our study. Note that the values presented in Table 1 are non-standardized and nontransformed. The values for resource development and resource access are individually reported in the table to provide greater clarity of the variables. Table 2 presents the results from the fixed-effects regression analysis. Model 1 contains the control variables; Model 2 contains the controls and the independent variables; Model 3 contains controls, independent, and aspiration-relative performance interaction variables; Model 4 contains controls, independent, and firm size interaction variables; Model 5 contains controls, independent, and the development-focused content

interaction variables; and Model 6 includes the full model.

Though the β coefficient for *negative media coverage* in Model 2 is positive and significant ($p = .000$), the variable is not significant in the full model shown in Model 6. As such, Hypothesis 1, which posited that social disapproval is positively related to a firm’s investment in scrutiny-hazarding action—that is, resource development relative to resource access—is not fully supported. We will discuss the implications of this in the Discussion section, below. Based on Model 6, the positive and statistically non-significant β coefficient for the *negative media coverage* \times *development-focused content* interaction ($p = .12$), though in the hypothesized direction, does not support Hypothesis 2. However, and as we will explore further in the Discussion section, the interaction is statistically significant in Model 5 ($p < .001$)—when the “buffer” interactions are omitted. The negative and significant ($p < .01$) β coefficient for the *negative media coverage* \times *aspiration-relative performance* interaction, and the negative and significant ($p < .05$) β coefficient for the *negative media coverage* \times *firm size* interaction, indicate support for Hypotheses 3 and 4, which predicted that aspiration-relative performance and firm size, respectively, would exert attenuating influences on the social disapproval–scrutiny-hazarding action relationship. We plotted the interactions in Figures 1 and 3, and examined where these interactions were statistically significant (i.e., at which levels of the moderators), as depicted by the marginal effect plots in Figures 2 and 4. As such, for the sake of accuracy, we chose the “high” and “low” levels of the moderators in Figures 1 and 3 according to the high and low ends of the range where those interactions were in fact significant. This allowed us to more accurately plot the interactions by depicting where they are significant, and not where they are nonsignificant (i.e., $+3$ *SD* above the mean). We elaborate on this in the Discussion section.

In Table 2, the coefficient for negative media coverage in Model 2 indicates that a one standard deviation increase in the prior year’s negative media coverage is associated with a 0.52 unit increase ($p < .001$) in the resource development–resource access ratio. The only other variable that is significant in Model 2, the positive media coverage control variable, is significant and in the opposite direction, in that it appears to discourage resource development spending relative to resource access spending. However, what we might call negative media coverage’s “development promotion effect” is almost

TABLE 1
Summary Statistics and Correlation Matrix

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Resource access	267,790	23,96,448												
2 Resource development	1,641,437	16,100,000	0.75											
3 Log development/log access	1.58	2.12	-0.03	-0.02										
4 Financial slack	-17.40	262.70	-0.03	-0.04	0.01									
5 Debt-to-equity ratio	1.20	6.86	-0.01	-0.01	-0.02	-0.01								
6 Total inventories	11.48	67.48	0.04	0.02	-0.05	0.08	0.02							
7 Sales growth rate	1.27	9.88	-0.01	-0.01	-0.02	0.03	-0.01	-0.02						
8 Word count	1,006.15	941.77	0.08	0.07	-0.06	-0.08	-0.04	0.50	0.01					
9 Positive media coverage	4.51	1.75	0.12	0.10	0.01	-0.09	-0.09	-0.21	-0.09	-0.13				
10 Negative media coverage	0.35	0.68	-0.03	-0.03	0.15	-0.02	-0.03	0.04	-0.02	-0.02	-0.02			
11 Focus of media coverage	0.01	0.01	-0.04	-0.03	-0.04	0.02	-0.05	0.07	-0.02	0.11	-0.03	0.15		
12 Aspiration-relative performance	-0.03	0.22	0.00	-0.02	-0.05	-0.01	-0.02	0.01	-0.05	0.00	0.09	-0.19	-0.04	
13 Assets	2,788.81	7,207.67	0.07	0.06	-0.07	-0.05	0.00	0.68	-0.04	0.70	-0.21	0.07	0.06	0.01

Notes: n = 311; number of firms = 100. Non-standardized/transformed measures. Correlations \pm 0.12 and greater are significant at a minimum $p < .05$ level.

TABLE 2
Fixed-Effects Regression Results (DV: Resource Development Relative to Resource Access)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	<i>b/SE</i>	<i>b/SE</i>	<i>b/SE</i>	<i>b/SE</i>	<i>b/SE</i>	<i>b/SE</i>
Financial slack	0.06 (0.04)	0.05 (0.04)	0.04 (0.04)	0.05 (0.04)	0.03 (0.05)	0.03 (0.05)
Debt-to-equity ratio	-0.00 (0.01)	-0.02 (0.02)	-0.03 (0.02)	-0.01 (0.02)	-0.02 (0.02)	-0.02 (0.02)
Total inventories	0.01 (0.03)	0.01 (0.02)	0.02 (0.03)	0.01 (0.02)	0.01 (0.04)	0.01 (0.04)
Sales growth rate	-0.01 (0.03)	-0.01 (0.04)	-0.01 (0.04)	0.01 (0.03)	-0.01 (0.03)	0.00 (0.03)
Word count	0.13 (0.15)	0.15 (0.14)	0.20 (0.15)	0.16 (0.14)	0.18 (0.14)	0.21 (0.14)
Positive media coverage	-0.20 (0.15)	-0.27* (0.12)	-0.28* (0.12)	-0.21 [†] (0.12)	-0.27* (0.12)	-0.24 [†] (0.12)
Negative media coverage		0.52*** (0.13)	0.28** (0.10)	0.42** (0.15)	0.08 (0.16)	0.05 (0.15)
Focus of media coverage (FMC)		-0.14 (0.09)	-0.14 (0.09)	-0.13 (0.09)	-0.10 (0.08)	-0.11 (0.09)
Aspiration-relative performance (ARP)		-0.13 (0.14)	-0.11 (0.13)	0.04 (0.07)	-0.11 (0.10)	-0.00 (0.05)
Assets (logged)		-0.71 (0.69)	-0.94 (0.75)	-0.47 (0.72)	-0.75 (0.67)	-0.71 (0.77)
Negative media coverage × FMC			0.29** (0.09)			0.16 (0.10)
Negative media coverage × ARP				-0.11*** (0.02)		-0.07** (0.02)
Negative media coverage × assets					-0.28*** (0.07)	-0.18* (0.07)
Constant	1.76** (0.52)	1.77** (0.55)	1.63** (0.59)	1.72** (0.56)	1.65** (0.59)	1.58* (0.60)
Log likelihood	-497.52	-482.55	-478.35	-478.65	-476.88	-474.09

Notes: $n = 311$; number of firms = 100. Year dummies omitted for parsimony. Robust standard errors under coefficients in parentheses.

[†] $p < .10$

* $p < .05$

** $p < .010$

*** $p < .001$

twice that of positive media coverage's "development prevention effect." This is consistent with the tendency for negative signals to be more salient than positive signals (e.g., Rozin & Royzman, 2001). Importantly, however, there is emerging consensus that the main effect's results should be interpreted in the full model in the presence of significant interaction effects (e.g., Aguinis, Edwards, & Bradley, 2017).

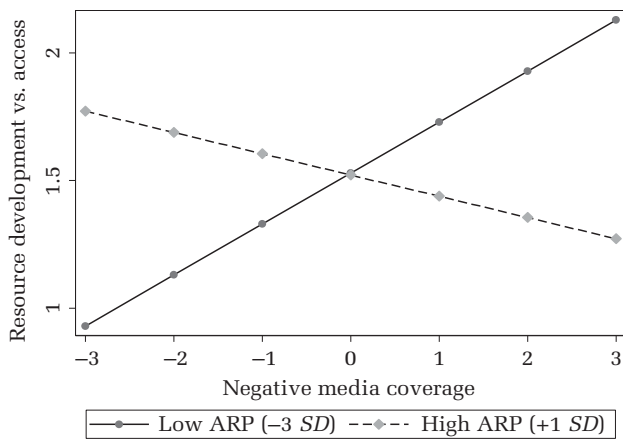
In the full model, a one standard deviation increase in the aspiration-relative performance variable weakens the effect of negative media coverage by 0.07 units, whereas a similar increase in "size" (total assets) weakens negative media coverage's effect by 0.18 of a standard deviation. Comparatively speaking, in the full model, these "buffering" interaction effects have a stronger influence on the

criterion variable than all but the effect of positive media coverage and two-year effects (omitted from Table 2 for parsimony). Importantly, our main effect is no longer significant in the full model, and this is potentially due to the strength of these countervailing interaction effects. As we elaborate further in the Discussion section, it may be that negative media coverage is most consequential when size and aspiration-relative performance are at low levels, and that, by explicitly accounting for their effects, this attenuates the effect of negative media coverage alone.

Robustness and Endogeneity Analyses

Our sample was restricted to firms that received media coverage, though this restriction may introduce concerns of sample selection bias, as there

FIGURE 1
Interaction of Negative Media Coverage and
Aspiration-Relative Performance



Note: ARP = aspiration-relative performance.

were a number of firms within the population that did not receive media coverage. We explored the possibility that this bias could influence our results by utilizing a technique developed by Heckman (1979) and frequently used in the literature to account for selection bias (e.g., Bednar, 2012). The first step captured whether a firm received media attention via a probit model that included the total investment in both resource development and resource access activities (i.e., a sum of the amount invested in

both activities), net income, employees, cash, total current assets, and total sales. This stage created a nonselection hazard, referred to as the inverse Mills ratio. We then retested each regression and included the inverse Mills ratio as a control variable in each equation. The results from each regression were similar to those reported in Table 2, indicating that sample selection bias, if present, does not impact our results.

Though the Heckman technique discussed above addresses endogeneity concerns that arise from sample selection bias, endogeneity may arise from other sources. Endogeneity refers to a correlation between the independent variable and the equation's disturbance term, and may arise from a number of possibilities, including simultaneous causality, omitted variables, and others (Semadeni, Withers, & Certo, 2014). To investigate whether endogeneity was biasing our estimates, we employed a two-stage least squares (2SLS) procedure discussed by Semadeni et al. (2014). This procedure involves the identification of instruments that are individually and jointly significant predictors of the potentially endogenous variable (in the current research, social disapproval). This procedure was followed by a Sargan–Hansen test to evaluate whether the instruments were properly excluded from hypothesis testing, and a Davidson–MacKinnon test to evaluate whether an instrumental variable approach was appropriate for hypothesis testing.

FIGURE 2
Average Marginal Effects of Negative Media Coverage on Development versus Access across Level of
Aspiration-Relative Performance (with 95% CI)

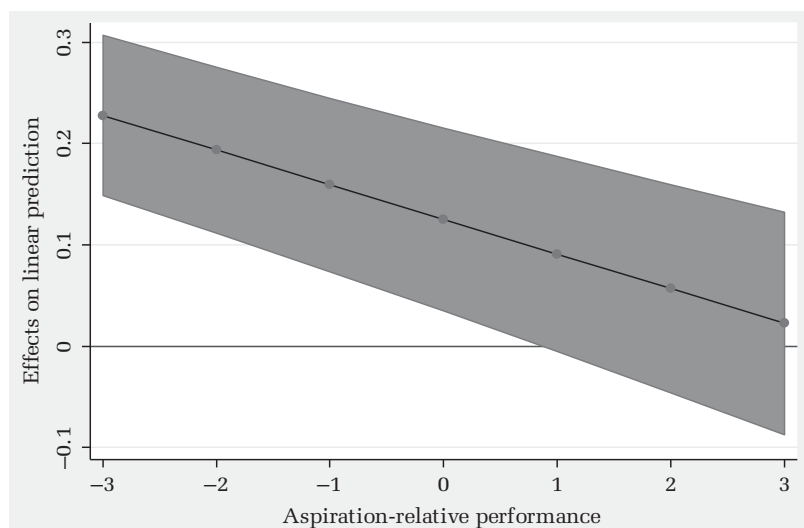
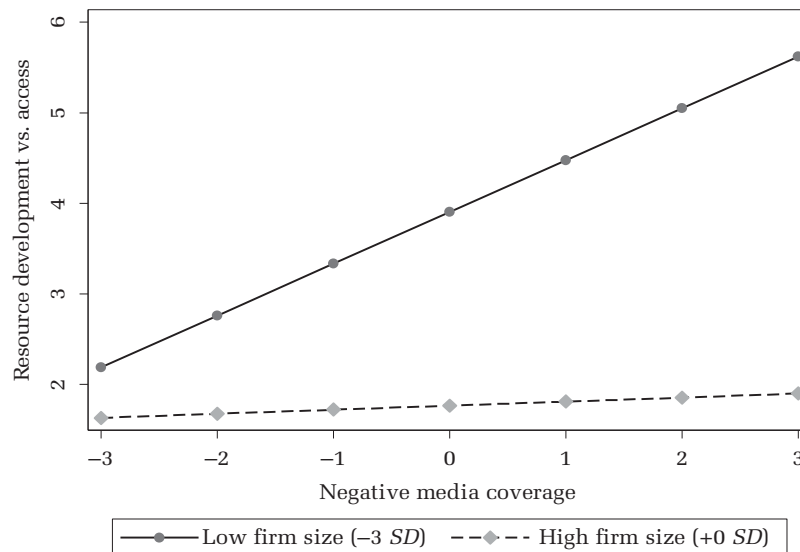


FIGURE 3
Interaction of Negative Media Coverage and Firm Size



Our instruments for social disapproval—the “cognitive mechanisms” and “human” variables generated by the LIWC 2007 software—were derived from the content analysis procedure we employed to calculate our social disapproval independent variable, and from the same time ($t - 1$). The “cognitive mechanisms” variable indicates the extent to which the document employs terminology reflecting, for example, causal relationships, insight, tentativeness, etc. We expect it to positively correlate with social disapproval, because the media, in their role as infomediaries, attempt to “make sense” of firm action. The “human” variable reflects the extent to which the document refers to people (words such as “child,” “adult,” “male,” “female,” etc.). We expect it to positively correlate with social disapproval due to the people-centric and intuitive nature of the social disapproval formation process (Bundy & Pfarrer, 2015).

In the first-stage equation in the 2SLS procedure, where the social disapproval variable is treated as potentially endogenous, our instruments were individually ($\beta = 0.11, p < .01$; and $\beta = 1.52, p < .001$, respectively) and jointly significant ($F = 18.96, p < .001$) predictors of social disapproval. The second stage yielded a nonsignificant Sargan–Hansen test statistic, indicating that the instruments were jointly valid and properly excluded from the second-stage equation of the 2SLS, providing evidence that we properly specified our 2SLS estimator. The nonsignificant test statistic for the Davidson–MacKinnon test indicates that a noninstrumental

variable estimator is preferred, because the focal variable is not likely to be endogenous (Semadeni et al., 2014). In consideration of this analysis, we found little evidence that endogeneity meaningfully biases our estimates.

Finally, because a firm fixed-effects specification discards between-firm variance that may be of interest (Certo, Withers, & Semadeni, 2017), we explored the robustness of our model by utilizing the generalized estimating equations (GEE) method, and employed robust standard errors and an exchangeable correlation structure (Krause, Filatotchev, & Bruton, 2015). Results are supportive of our fixed effects regression, though it is noteworthy that the interaction with resource development-focused content was statistically significant in the hypothesized direction (positive β coefficient, $p < .05$) in the full model. Similarly, we estimated our model with an Arellano–Bond generalized method of moments (GMM) procedure, which allowed us to use a past set of “internal” variables contained in the panel—that is, a lagged version of our dependent variable—as instruments for the current dependent variable (Wintoki, Linck, & Netter, 2012). Results of the GMM are supportive of all hypotheses, similar to those from the GEE procedure.

DISCUSSION

The purpose of this research is to develop the scrutiny-bundling perspective, which posits that social disapproval influences scrutiny-hazarding

action—those actions that are a core component of a firm's operations, but hazard the possibility of burdensome scrutiny. Conventional theoretical perspectives have not sufficiently addressed this issue. For example, perspectives rooted in problem resolution in the wake of performance feedback (Audia & Greve, 2006) or the distraction or placation of stakeholders (Cyert & March, 1963; Graffin et al., 2011; Zavyalova et al., 2012) have not directly addressed the issue of firm activities central to the firm's operations but that carry the hazard of inducing scrutiny. These activities all fall under the status quo, and therefore conventional perspectives about status quo deviation do not as clearly apply to this circumstance.

The limited research that has addressed firm responses to social disapproval has suggested that social disapproval prompts risk aversion (Durand & Vergne, 2015)—but has focused primarily on the extreme context of stigmatized industries. Despite the substantial merits of these prior efforts, most firms do not operate in stigmatized industries, and many firms engage in activities that, although scrutiny-hazarding, are core to the firm's operations, and are not necessarily misconduct.

To help address this considerably unexplored middle ground corresponding to the majority of firms' experiences, we created a conceptual framework, based primarily on concepts from the accounting and political science literatures, that we term "scrutiny bundling." We found evidence for efforts aimed at scrutiny bundling, allowing the firm to metaphorically "rip off the Band-Aid," exchanging heightened immediate scrutiny for a potential reduction in scrutiny over the long term. We hypothesized that social disapproval corresponds to greater scrutiny-hazarding activity (i.e., scrutiny bundling), and that this relationship is amplified when the focus of the media coverage is more directly related to the scrutiny-hazarding action. We then hypothesized that both size and aspiration-relative financial performance reduce the salience of disapproval for large and high-performing firms, thereby attenuating the linkage between social disapproval and scrutiny-hazarding action, and thus lessening the prospect of a scrutiny-bundling response. Our empirical analyses of the resource development and resource access activities of a sample of Canadian oil and gas firms provided general support for our conceptual framework.

There are two unexpected and noteworthy findings from our analyses. First, the main effect relationship is only significant in the *absence* of the interaction

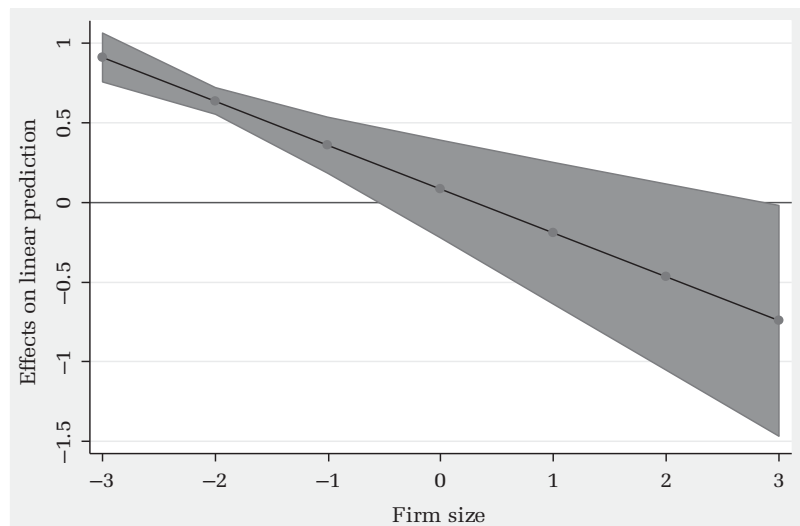
between social disapproval and firm size. In other words, the interaction of social disapproval and firm size "washes out" the variance from the social disapproval–scrutiny-hazarding action main effect relationship. This finding should be considered in conjunction with Figure 4, which illustrates the average marginal effect of social disapproval across a range of values for firm size. Figure 4 indicates that the interaction is significant at low values of firm size, but there is a lack of significance at higher values of firm size. This suggests that the interaction of social disapproval and firm size is quite pronounced among small firms, but less salient for larger firms. We believe this is an interesting finding, and generally supportive of our theory that managers of large firms are less sensitive to, or are buffered from, the pressure of social disapproval.

The second unexpected finding is that the interaction between social disapproval and focus of media coverage, though not statistically significant in the full model, is significant (and in the predicted direction) when modeled without the presence of the buffering interactions. Further, the relationship is statistically significant with the GEE and GMM modeling techniques in the full model (in the presence of all interactions). This suggests that a strong linkage between the focus of the media coverage underlying any social disapproval and the scrutiny-hazarding action may exacerbate scrutiny-bundling efforts. However, when considered in the presence of relevant buffering factors—that is, aspiration-relative performance and firm size—the relationship may be less consequential to our framework. In other words, buffers seem to "matter more" than if the focus of the media coverage is more closely tied to the scrutiny-hazarding action (e.g., in news articles for which the subject is hydraulic fracturing drilling practices). This evidence has important implications for both theory and practice.

Implications for Theory

Despite substantial work examining how social evaluations can be valuable to firms and influence firm performance (e.g., Pfarrer, Pollock, & Rindova, 2010), very little attention has been paid to the influence that these constructs have on strategic decisions that pervade core organizational operations (e.g., Petkova et al., 2014). This is largely due to the relatively recent progress in distinguishing between various adjacent social evaluation constructs, such as legitimacy, status, reputation, stigma, and social approval (e.g., Bundy & Pfarrer, 2015).

FIGURE 4
Average Marginal Effects of Negative Media Coverage on Development versus Access across Firm Size (with 95% CI)



The work that has examined how social evaluations influence decisions has been largely focused on the decisions of *other* firms due to the focal firm's status (Stern, Dukerich, & Zajac, 2014), reputation (Dollinger, Golden, & Saxton, 1997), or stigma (Reuber & Fischer, 2010). Thus, studies of how social evaluations influence a firm's own decision-making are rare (e.g., Petkova et al., 2014). To that end, our study suggests that managerial decisions regarding scrutiny-hazarding action may be closely linked with social disapproval, in a manner different to what we would expect from threat rigidity (Staw et al., 1981) or behavioral theory reasoning (Cyert & March, 1963). First, social disapproval alone does not appear to motivate threat rigidity, which should correspond to a reduction in scrutiny-hazarding action. Second, in contrast to problemistic search's role in rectifying underperformance, social disapproval cannot be remedied through scrutiny-hazarding action. Substantial opportunities remain to examine the linkages between social evaluations and strategic decision-making, particularly by applying the scrutiny-bundling perspective we demonstrate here.

The scrutiny-bundling perspective may offer scholars another means to interpret phenomena that are unexpected from a threat-rigidity or behavioral theory perspective. Moreover, the scrutiny-bundling perspective may be applicable to more than just social disapproval. It could potentially be applied to a range of circumstances in which managers are

motivated to reduce aggregate scrutiny at the expense of greater short-term scrutiny. Perhaps the greatest insight from our study is that firms exhibit a propensity to scrutiny bundle, or “rip off the Band-Aid,” in the wake of social disapproval. Our findings are novel in terms of challenging and extending existing assumptions and theory, and also resonated with a group of Canadian executives that work in the upstream petroleum industry, with whom we discussed our research. First, we found evidence that executives do indeed care about disapproval. As one executive, who served as both vice president of engineering and vice president of operations, mentioned, “Everything always goes back to—especially in a public company—‘What’s the press gonna say about us doing this?’” A vice president of exploration noted:

Any bad press for a public company is immediately discussed by the board, management, and major shareholders. Most often, a special, quiet meeting is convened. Remember, a public entity is all about image and shareholder perception. Any crack of that image could multiply and shatter all. This translates into lower share price: not good.

Others expressed concern about disapproval eventually bogging down the organization: “The fear is, if bad press continues, then focus is redirected from corporate goals and readjusted to the press.”

Our results also bolster the logic around the buffering effects of certain firm-level characteristics

(Audia & Greve, 2006; Desai, 2008), such as size and performance. Some work has considered the hazardous effects that prominence can have on amplifying stakeholder pressure (De Bondt & Thaler, 1990; Pollock, Rindova, & Maggitti, 2008; Waldron et al., 2013), though relatively less attention has been paid to the benefits that certain organizational factors can provide. We add nuance to this discussion by demonstrating that, although social disapproval may create pressure, size and financial performance may alleviate that pressure. Figure 2 illustrates the average marginal effect of social disapproval across a range of values for aspiration-relative performance, and indicates that social disapproval is related to scrutiny-hazarding action at lower levels of aspiration-relative performance, though the relationship becomes statistically nonsignificant at high levels of aspiration-relative performance (greater than plus-one standard deviation).

As previously mentioned, Figure 4 indicates that the interaction is significant at low values of firm size, but nonsignificant at higher values of firm size. This suggests that the interaction of social disapproval and firm size is quite pronounced among small firms, but less salient for firms that are at least “average size” or larger (“average” being inferred from the zero value for the standardized size measure). When we asked our executives why this might be the case, one suggested that “well-defined checks and balances for a large company should ensure that media scrutiny would not uncover any practice that would need to be revised as a result of media investigations.”

Implications for Practice

Perhaps the most salient practical implication of our work is the link between what the media say and the choices firms make in response. When experiencing social disapproval, firms might engage in scrutiny-hazarding action in an effort to endure greater near-term scrutiny in the hope that it will subside over the long term. Given the evidence of scrutiny bundling, we also suggest that our research might provide competitive insights for firms. When firms face higher levels of social disapproval, they are more likely to engage in scrutiny-hazarding action. Thus, managers paying close attention to the extent of social disapproval experienced by their rivals may be able to predict these rivals' subsequent activities. Such managers may have greater opportunity to formulate a response to the scrutiny-hazarding action of social disapproval-experiencing

rivals. Since the social disapproval-experiencing rival may engage in more scrutiny-hazarding action, this could be very useful information for managers of firms that are looking to sell assets that would require scrutiny-hazarding action (e.g., selling producing oil fields) or looking for a partner to take on the activities that may engender scrutiny (e.g., a joint venture intended to develop a new oil field into production). The manager might view the social disapproval-experiencing rival as a potential buyer or a partner for scrutiny-hazarding action.

Limitations and Future Research

The present study is subject to certain limitations. We have argued that, when an organization is more vulnerable to scrutiny—by virtue of its smaller size or poorer aspiration-relative performance—managers are more likely to engage in scrutiny bundling by pursuing scrutiny-hazarding action in the wake of social disapproval. However, it is possible that this tendency will reverse at extremely high or low levels of vulnerability that we were unable to capture in our data. That is, if the firm is very vulnerable to heightened scrutiny, it may elect to draw out the duration of low-grade scrutiny because it cannot withstand the hazard of heightened scrutiny even for a brief period. On the other hand, if the firm is extremely robust to heightened scrutiny, it may take steps to invite greater scrutiny in the hope that its overall duration—and, by extension, its long-term impact—can be reduced. Subsequent studies may advance our knowledge of this issue by examining the extremes of scrutiny vulnerability among firms of various sizes and performance. Similarly, we framed our arguments around the pressure of social disapproval, though there are a number of other issues that affect strategic decision-making. Although we included a number of control variables and tested the robustness of our results in various ways, we are unable to account for all of the various issues that are relevant to the investment decision-making process.

Moreover, as the purpose of this research is descriptive rather than normative, we have offered no prescriptions about whether scrutiny bundling is an appropriate or effective means of advantaging the firm or enabling greater managerial discretion by reducing stakeholder pressure. However, it may be that managers can use the media as a strategic tool based on the activities they know they must perform in the near future. When facing scrutiny, managers might be advantaged by saving announcements likely to be judged more positively by stakeholders—for

example, charitable donations, joining a task force designed to lead innovations in environmental stewardship, or an expansion that would increase the number of local jobs—for a time when the firm is experiencing less social disapproval. Once the firm is under scrutiny, it might make the most strategic sense for the firm to embrace that scrutiny and engage in activities that engender more scrutiny. In that light, managers can choose to save more positive announcements until the spotlight is off of the firm.

CONCLUSION

In a time in which the media is ubiquitous and consumers have ready access to a variety of information about firms and their activities, it is important to consider how managers respond to the reality of social disapproval in their strategic activities. While prior research has considered response strategies oriented around avoidance, distraction, or problem resolution, we propose that decision-makers, when faced with social disapproval, may engage in scrutiny bundling, or temporally increasing scrutiny-hazarding action. Our study challenges and extends existing understanding of how firms respond to social disapproval, especially as related to core activities that comprise a firm's everyday operations. In doing so, we offer a step toward improving understanding of how firms respond to social disapproval given the socio-political realities of the modern marketplace.

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