

REBUILDING THE IRON CAGE: POST-FAILURE ORGANIZING IN
NEWSPAPERS AND INVESTMENT BANKS

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Sidney Winter provided a number of important insights in his class and his personal correspondence, insights about limited liability and risk, Schumpeterian innovation, and strategic disbanding. Sid argued once in a memorable seminar that Kodak

would have done well to recognize its path dependence in photochemistry and to strategically exit rather than attempting to enter the digital photography market. We do not often conceive of failure as a choice, but according to Sid, we should. This is a view that I have taken from Sid and used throughout my work.

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Dissertations are acts of social production in many respects, and several of the insights that this dissertation explores were realized through dialogue and discovery. I am very grateful for all of the support that I've received. I hope that my career provides me with opportunities to pay it back and forward.

ABSTRACT

REBUILDING THE IRON CAGE:

POST-FAILURE ORGANIZING IN NEWSPAPERS AND INVESTMENT BANKS

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Organizational failure is an incomplete process because routines and norms persist through employee careers. Qualitative interviews with former employees from four newspapers and two investment banks, all of which are bankrupt or disbanded, demonstrate ongoing utilization of routines and ongoing compliance to norms despite severed connections to the failed firm. Routines are most likely to persist when they relate to low-volatility processes that do not require maintenance to ensure ongoing accessibility. Characteristics that make norms transferable are also identified. Adherence to aesthetic and pragmatic norms depends on how well they fit into new occupational contexts: uptake varies in proportion to the similarity between the failed firm and the new occupational setting of a failure survivor. Justice-oriented norms are not context-dependent; they persist regardless of post-failure employment outcomes. In fact, justice-oriented norms are found to drive the selection of new occupations as journalists seek normative consistency in their careers and some investment bankers change careers to reclaim a sense of purpose lost in banking. These observations hold whether survivors find employment in incumbent firms, entrepreneurial projects, or as freelancers. As survivors adapt work practices, their efforts constitute a form of inter-organizational innovation that generates organizational heterogeneity within unstable industries. Post-failure continuity provides an important and largely undocumented mechanism for the preservation of organizational attributes and the diversification of organizational form amidst crisis, an adaptive process that reconsiders the normative environment of a business and selectively discards assumptions about how firms ought to be. Survivors of failure often face a dilemma in deciding whether to attempt to re-create an occupational setting similar to the firm that failed or to go a different direction. This work takes up this dilemma, asking what insight business ethics research can provide for those who might wonder about the purpose of their firms. A theory of property is used to articulate a normative argument: firms should fail when they are unable to cover their debts and externalities, and firms should survive when they generate surplus value. The dissertation contributes to organizational theories of evolution, to the study of career trajectories, and to a life-cycle approach to business ethics.

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CHAPTER ONE:
ORGANIZATIONAL FAILURE AND
THE PERSISTENCE OF NORMS AND ROUTINES

Introduction

This dissertation focuses on the post-failure persistence of organizational norms and routines in newspapers and investment banks. Both industries were experiencing tumultuous reorganization throughout the study period from 2008 to 2011, and both demonstrate strong continuities linking failed firms to other organizations through employee careers. From failed firms, journalists carry their aesthetic for what makes a good story and their justice orientations for whom news ought to serve. These are norms that newspapers instill, and they persist even after organizational failure. Investment banks also persist beyond failure in the way that employees conceive of financial models and the way that they put together computer presentations, among other continuities discussed in detail below.

The finding that firms survive failure is surprising; the finding that people seek consistency in their careers is not. In order to develop this account, I had to forge a linkage between organizational level phenomena such as norms and routines and individual level phenomena such as careers and job mobility. I claim that this is a strength rather than a weakness in my argument insofar as it forges a new path for the recognition of complex organizational processes in industries where firms fail and new organizations emerge. Dynamic industries present a moving target that is extremely difficult to characterize at any level of analysis. When Whyte wrote *The Organization*

Man (1956), an organization could be characterized without much messiness in levels of analysis. Employees remained within their firms long-term, so that they were the firm and the firm was them. What was essentially organizational was the fact that these entities endured with relative stability despite the eventual replacement of their human substance. The organization was a fixed point through which people moved. Self-selection and socialization processes imposed dominant organizational norms, routines, and behaviors onto Whyte's organization, fixing these processes within a single entity.

In contrast, newspapers and investment banks, like many modern firms, cannot be characterized in this way. Journalist careers traverse numerous newspapers as they work from small-town papers with limited circulations into mainstream papers with a wider readership. A large portion of the labor supply is constantly shuffling, working toward a coveted post at a large metropolitan daily newspaper. Similarly, many investment bank employees never intended to stay put within their firms; most are counseled against this career strategy. Instead, they hope to be "poached" by another firm, often shortly after annual bonuses have been distributed.

Though these bankers and journalists are not organization men (and women) in Whyte's sense, they are organized by their firm associations. Within firms they learn policies, strategies, expectations, skills, and a sense of purpose. They learn routines and norms that they continue to invoke throughout their careers regardless of the persistence of the firm where the learning took place. For example, many universities have hired journalists who were laid off by failing papers to write about their students, faculty, and alumni. We cannot understand the organizations in which these people work without

reference to the newspapers that trained and normed their employees. Likewise, we cannot understand hedge funds without reference to the investment banks at which their employees learned their trade.

The changed nature of careers has been the subject of considerable discussion and debate in management research and the sociology of work (Arthur and Rousseau 1996; Cappelli 1999; Hall 2002). Observations of the likelihood of career transitions are hardly new (Abbott 1989). What is changing is the way that these career transitions are coming to serve as a central component of traditionally organizational phenomena. For instance, prior occupational experience is now being recognized as a central factor in job performance (Dokko, Wilk, and Rothbard 2009).

Is this a study of organizations or a study of careers? Clearly, it is both. For those who are interested in layoffs and job mobility, the reshuffling of labor during organizational failure offers an interesting research setting for outcomes of interest like human capital investment, retraining, innovation, and job satisfaction. For the organizational theorist who is interested in organizational failure, and in routines and norms as organization-level phenomena, the results of the study apply even more directly to these conversations.

Before reviewing related literature, a word should be said about the concept of failure used in this study. My sample is comprised of firms that had declared bankruptcy and conducted significant layoffs; some of these firms disbanded completely. Under this multi-stakeholder conception, “failure” is conceived as an organizational event that displaces people from work. Some leave on their own accord, and others are forced out.

Academics invoke the concept of “failure” in many different ways. Medical devices fail when they cease to function within specified parameters: a heart valve has failed when it no longer regulates the flow of blood. Power grids fail when they are unable to regulate current. The grid persists, but its failure is a recognizable incident of aberrant behavior. We talk about failure at multiple levels in some settings, for instance, we describe failing students within failing classrooms within failing schools, a nesting of failure that goes all the way up to a federal government and might drill down to a failing grade on a single assignment. I use “failure” in keeping with the tradition of organizational analysis and population ecology, indicating underperformance in key outcomes for multiple stakeholders. Failure, thus conceived, is associated with organizations disbanding, but some failing organizations persist despite underperformance (Meyer and Zucker 1989).

The remainder of this chapter surveys organizational theories of failure and employee transition. The first section documents the gap in research that would connect failed firms to other organizational outcomes. The second section surveys research suggesting the likelihood of a connection, but given the disparate and underdeveloped linkage, a grounded theory approach is undertaken. The third and final section documents some of the contributions that this study makes to the literature.

Oversights of Theory and Practice

Organizational research addresses every part of the organizational life cycle (Kimberly and Miles 1980; Quinn and Cameron 1983) except the part that cycles: that is, the part that connects the end to the beginning. Until the late 1970s, there was very little research on failure, and entrepreneurship research was limited to backward-looking

studies of firms that had survived. Since then, research has filled out on both ends of the life course. Due to the emergence of ecological approaches to organizational analysis (Hannan and Freeman 1989; Singh and Lumsden 1990), organizational death has taken its rightful place as an important subject for managerial study (Levinthal 1991). Failure is studied as a byproduct of decline (Cameron, Whetten, and Kim 1987; Weitzel and Jonsson 1989; Whetten 1987) and a more general occurrence that befalls even newly minted firms (Bruderl and Schussler 1990; Freeman, Carroll, and Hannan 1983; Swaminathan 1996). Industry-level studies are complemented by process studies of organizational death at the firm level (Harris and Sutton 1986; Sutton 1983). Ideas that were once fundamentally distinct, like death and growth, are now recognized as related phenomena (Barron, West, and Hannan 1994; Walsh and Bartunek In Press).

Meanwhile, entrepreneurship theory provides an increasingly detailed portrait of firm emergence. The many studies based upon Global Entrepreneurship Monitor (GEM) and Panel Study of Entrepreneurial Dynamics (PSED) datasets provide insight into the fates of entrepreneurs (Reynolds and Curtin 2008). Entrepreneurship scholars and organizational theorists are starting to look back even further in an effort to understand the origins of firms. The necessary theoretical groundwork to begin forging the connection between organizational failure, established firms, and new venture formation exists in studies that take personal histories seriously. These include research on the enduring importance of founders (Beckman and Burton 2008), the career histories grounding venture formation (Burton, Sørensen, and Beckman 2002), backgrounds that predate entrepreneurship (Dobrev and Barnett 2005; Sørensen and Phillips 2008), the

inter-organizational transferability of gender inequality (Phillips 2005), and the broader genealogical origins of organizations (Phillips 2002). The post-failure connection is increasingly focal to understanding a subset of organizational processes that motivate strong organizational identities, as observed in Walsh and Bartunek's forthcoming study, but the specific boundaries of what transfers and what does not have yet to be tested.

Through an exploration of post-failure transfers, we may have reason to revise some of the basic assumptions of how organizations work to account for the history that they derive from their employees. For instance, "new" organizations founded from the shells of failed firms may not lack legitimacy as many new firms do (Singh, Tucker, and House 1986). Similarly, evolutionary perspectives that view organizational failure as a selection event (Aldrich and Ruef 2006; Nelson and Winter 1982) might be updated to recognize the selective uptake of organizational norms and routines among displaced workers. There is room for an understanding of organizational death as incomplete (Hoetker and Agarwal 2007), adaptive (McKinley 1993), and educational to the population (Miner et al. 1999), but the broader framework is only emerging recently.

A small literature on organizational genealogies and the organizational afterlife has finally bridged the gap between failures and post-failure projects, but a deeper rift continues to divide the underlying disciplines and methodologies that support post-failure research. What is the level of analysis at which post-failure transformations occur? Are these individual, organizational, or relational processes? As an individual-level phenomenon, it is clear that occupational identities persist despite the collapse of the organizations in which identities were established and through the mechanism of

entrepreneurship (Walsh and Bartunek in press). As an organization-level phenomenon, it seems similarly probable that organizational routines also survive failure (Hoetker and Agarwal 2007).

It is surprising to no one that people are creatures of habit and firms are path-dependent. But mixing these two observations to understand the process of post-failure organizing yields a very different understanding of both firms and the people who inhabit them. Failed routines and norms become proto-organizational substance that can be reconfigured within emergent firms. Individual identities become motivating forces that help organizational logics to endure.

Small discontinuities in the use of norms and routines do not indicate their destruction. Instead, these processes should be presumed dormant. I use the prefix “proto” to indicate this dormancy. That prefix is most often used to indicate the primitive state of noun, as in “prototype.” The use is appropriate for proto-routines (Hsu and Marino 2010) and proto-norms, which are both dormant remnants of a failed firm, and potential components of a new organization. Proto-norms and proto-routines provide survivors of organizational failure with a toolkit for their subsequent projects. These tools shape some of the decisions that survivors make, and the tools are also reshaped through a deliberate process of adaptation. Though many of the routines and norms that persist are tacit and assumed, survivors deliberately select others. A survivor’s decision to utilize a routine or norm cannot be justified by the mere fact of its having existed in another organization, particularly not an organization that failed. Unlike established firms, emergent organizations cannot discard an alternative based upon a “not invented here”

mentality because, in a very real sense, there is no “here.” When survivors blame a given firm’s failure on a dysfunctional routine, it is discarded. If, however, they believe the routine to have been functional despite the firm’s failure, its resurrection becomes more likely. The implications have immediate bearing on some of the central topics of managerial research, particularly innovation and organizational evolution.

Proto-organizational processes find differential expression depending upon the career trajectories of the individual employees who carry them, on the characteristics of the failed firm, and on the characteristics of the environment and organization in which displaced workers organize. The phenomenon can only be understood at the interface of three levels of analysis: persons, networks, and organizations. Yet the context provides some clues for disentangling these factors in an unusual way. Amidst failure, one can observe the informal organization outside of the established hierarchy through which it emerged.

Project Overview

The key empirical question pursued within this study concerns the post-failure fates of organizational processes: are the workplace routines of a firm lost when that firm fails? Does adherence to the norms of a firm cease when that firm fails? Are norms and routines transferred to incumbent firms? How do the resultant structures of work and organization change through the process of post-failure organizing?

The key normative question concerns these same fates. It seeks in business ethics answers to the dilemma faced by many survivors of failure: the question of which firms should fail. Though the question of survival and failure is most pronounced for the

managers, creditors, bankruptcy courts, and shareholders who are often involved in the discussion leading up to an organization being disbanded, the post-failure context provides a survivor of failure with a related question of whether the norms and routines of a failed firm ought to survive, and unlike the formal organization of the firm, every employee has opportunities to re-create aspects of the failed firm.

The remainder of this chapter links the post-failure process with organizational and economic theory, laying out the conceptual landscape. The second chapter focuses on methodological strategies for post-failure analysis. The third chapter reports results from a qualitative study of 40 interviews with newspaper journalists whose firms have failed or are failing. The analysis documents their trajectories and their utilization of proto-organizational norms and routines in subsequent work. The fourth chapter explores similar processes through 16 interviews with former investment bankers, examining post-failure organizing in a very different setting.

Throughout this work, the reader will be struck by an overarching question that survivors must answer: which firms ought to survive? The question is not about owners or entities, but about the underlying norms, and routines that are the essence of the firm. The fifth chapter explains just how challenging it is to answer this question. It draws on normative theory within business ethics to examine the different ways in which organizational fates can be decided, and finds helpful but flawed responses. Business ethics provides important but incomplete insights to determine which firms should fail. The sixth chapter seeks to construct a theory of responsible profit that can provide guidance where the other theories cannot. The argument is conceived as a byproduct of

the suggestion that, if firms are meant to serve the interests of owners, they should wish to provide owners with a substantive entitlement to profit as a basis for a claim upon property. The final chapter returns to the empirical analysis, and to the settings of newspapers and investment banks. It considers the survival of firms within these two industries, and the challenge of integrating the ethnographic practice of understanding people and their lives with the ethical lens that asks how people ought to live.

Philosophers in business ethics have tended to focus on the irrelevance of empirical observation for the determination of right and wrong, but this conclusion reaches the opposite view: that empiricism enriches normative analysis. The final judgment affirms the importance of news media: news organizations should survive because the positive externalities of their work exceed the costs of firm persistence. The section also describes a set of open questions regarding the moral entitlements to profit generated by banks. The chapter concludes by returning to Weber's metaphor of the "iron cage" and asking how rationality and performance-orientations are changing through organizational failure in these two industries. It concludes by highlighting the importance of biography and social cohesion to the continuity of organizational norms, an iron cage that is inscribed on individuals through their idiosyncratic occupational histories.

The first four chapters of this dissertation develop an empirical account of the transfers of norms and routines through post-failure career transitions. These processes are empirically observable. Using this empirical account as a backdrop, the next two chapters launch a normative inquiry into the nature of failure. The analysis works through the question of which firms ought to fail and which should survive using established

business ethics frameworks, and then presents an alternative concept of business ethics that is better suited to the question of organizational failure. The final chapter merges these two efforts together to examine the question of whether newspapers and investment banks should survive, thus completing the transition from empirical to normative and into a final, hybrid form that uses normative concepts to explain an empirical phenomenon and uses empirical observations to recognize the implications of normative theory. The tension and interdependence of normative and empirical research is a persistent subject within business ethics and within this dissertation as well, but rather than stake a set of claims regarding that relation, this work provides an example of how the approaches do relate and reflects upon the limits of integration only after its analysis runs up against them. It is worth noting that this dissertation was written to satisfy the requirements of two different Ph.D. programs within two distinct research traditions. The transition between Chapters Four and Five demonstrates the striking contrast between these subjects and disciplines. Though key themes carry through the entire project, the halves are divided by disciplines with distinctive methods, goals, and aesthetics. The reader should expect only a partial integration of these divided intellectual pursuits.

Post-Failure Trajectories

Among the victims of the experience of post-failure unemployment (described here as “survivors”), a minority attempt the complete resurrection of the failed organization, and many hurry in different directions. But most do something, in their own way, to preserve the normative and productive substance of the failed firm. The diversity

of these attempts is an important pathway for the preservation of organizational capacity that is otherwise spoiled by failure.

This project focuses on corporate failures in the print journalism and financial services industries, on newspapers and investment banks in particular. During the observational period, the futures of these two industries were substantially uncertain. Some of the most established firms had dissolved or filed for bankruptcy, and others teetered on the brink of failure. There was little doubt that capital and news would be provided, but the future of this provision was substantially uncertain. The newspaper, as a dominant player in the dissemination of information, seemed to be as outdated as its paper-wasting means of distribution. Investment banks were in flux as well. Widespread exposure to mortgage-backed securities and credit default swaps had debilitated the major banks and led to a spate of distressed acquisitions and failures. By the end of 2008, some insiders were declaring Wall Street dead and the investment bank defunct as a form of organization (Hester and Cook 2008). Meanwhile, preservation-oriented state interventions sought to sustain failing firms in several industrial contexts. The two industries in this study differ in the extent to which they received public subsidy, but both have been the subjects of profound public concern in this transitional period.

Newspapers and investment banks offer an interesting platform for the study of individual career trajectories and organizational isomorphism. The standardization of investment practices among investment banks was as destructive to their population as the dependence on commercial and classified advertising revenue has been to newspapers. Standard accounts of organizational change would look for innovation

among new entrants to the industry and incumbent firms willing to invest in R&D. Meeting these expectations, fledgling online news outlets are redefining news even as massive incumbent firms experiment with alternative revenue models at scale. Similarly, large banks remain indomitable, but their services are brokered increasingly often by hedge funds and “family offices” that seek to stimulate oligopolistic competition between the banks, or to prey upon the risks that they take. Largely forgotten in this tale of organizational change are the established firms that fail. Evolutionary perspectives suggest that these firms have been “selected” out of the industry by economic pressure (Nelson and Winter 1982). But if we look more closely at the firms that are shedding employees amidst failure or liquidating entirely, we find that there are many opportunities for organizational capabilities to be disbursed rather than destroyed. As Hoetker & Agarwal (2007) express it, “Death hurts, but it isn’t fatal.”

The routines and norms that survive firm failure are products of individual initiative and personal agency in organizational life. Every day, employees make choices that influence the behavior of the firms that employ them, but they are rarely afforded the opportunity to start from scratch, choosing with whom to work and whether the business should exist at all. A layoff is thus both loss and liberation. Because people are defined by their organizational roles (Whyte 1956) and organizational objectives are defined by external resource dependencies (Pfeffer and Salancik 1978), organizational failure presents a special opportunity for individuals to choose their colleagues, their work roles, and their organizational environments. Failure also encourages survivors to refine or redefine their strategies in recognition of prior failures. Neo-institutionalism, which tends

to emphasize the static and constraining nature of organizational environments, should be very interested in the heterogeneity and change that failure initiates within an organizational field.

Failure is also of special importance for the field of business ethics. Amidst sweeping change and redefinition, the decisions that employees make are morally complex, and the moral issues are salient for many who face them. In the post-failure transition, former employees decide which firms, norms, and routines ought to exist, and which ought not to exist. The promise of ethics, the unique possibility, is that people can and should make moral choices to do the right thing. Sociologically, we know that people face constrained choices. Regardless of the metaphysical possibility of free will, constrained choice is empirically probable. Organizational constraints are an enduring topic for both sociology and business ethics (McGregor 1960; Whyte 1956). The study of choice under collapsed constraint allows a researcher to observe the impetus of conformity, and the individual process of self-redefinition in its wake. Durkheim's (1997b) analysis of anomic suicide is also a study of choice under collapsed constraint. He argues that one of the chief consequences of sharp economic change is the removal of a person from the norms of a society:

It is not true, then, that human activity can be released from all restraint.... Man's characteristic privilege is that the bond he accepts is not physical but moral; that is, social. He is governed not by a material environment brutally imposed on him, but by a conscience superior to his own, the superiority of which he feels. Because the greater, better part of his existence transcends the body, he escapes the body's yoke, but is subject to that of society. But when society is disturbed by some painful crisis or by beneficial but abrupt transitions, it is momentarily incapable of exercising this influence; thence come the sudden rises in the curve of suicides.... In the case of economic disasters, indeed, something like a declassification occurs which suddenly casts certain individuals into a lower

state.... All the advantages of social influence are lost so far as they are concerned. Their moral education has to be recommenced (1997b: 252).

In this transcendental passage, Durkheim lifts the person above the materialism of physicality, only to return her to the clutches of social control. Durkheim's case is extreme. In fact, most people do not escape the normative restraints of their field. But Durkheim's argument poses the question of how norms fare in post-failure transitions, a question that is entirely unaddressed within business ethics.

Many business ethics scholars aspire to improve the moral conduct of business and/or to hold business accountable for mistreatment of people and the environment. Whether approached from a Kantian (Bowie 1999), Aristotelian (Hartman 1996; Solomon 1993), or social contractarian (Dunfee and Donaldson 1999) perspective, the ethical orientation would suggest that there are important moral concerns that should be recognized by managers. But what should managers do when they have no more work? What should they do before work begins? These moments of unconstrained liberation are almost beyond the incremental, dilemma-oriented tools of the business ethics discipline. Stakeholder theorists might suggest that the unemployed focus upon value creation (Harmeling, Sarasvathy, and Freeman 2009). Kantians might suggest that they consider meaningful work (Bowie 1991). But their choice is, in some sense, radical beyond the scope of the current business ethics paradigm.

To what extent do firms survive failure? Is it possible that aspects of informal organization survive a failed formal organization? Organizations are formalized through legal relationships, official policies, reporting hierarchies, and documented procedures.

Informal organization relies on the norms and routines of everyday work practice¹. The embedded routines and norms that lack formality are difficult to manage, replicate, and control. Yet, insofar as informal organization is separate from the imposed social arrangements and authority structures of a firm, it may survive organizational failure.

A Typology of Organizational Failure and Routine Cessation

In order to locate the connections between failed firms and other organizations, four possible fates are worth considering. A firm may stay the same, change within the bounds of its formal organizational structure, fail as an organization but live on through the continued use of its organizational routines and norms, or fail so completely that it might as well never have existed. These four outcomes are categorized in Table 1.

Table 1: Failure and Cessation

		Formal Organization	
		<i>Fails</i>	<i>Survives</i>
Routines and Norms	<i>Persist</i>	Post-Failure Continuity	Business as Usual
	<i>Cease</i>	Pristine Failure	Organizational Transformation

If the informal organization is lost alongside the formal organization, then failure is pristine. *Pristine failure* results in the complete destruction of the firm and its component routines. Research in population ecology and evolutionary economics theorizes organizational failure as “selecting” a firm’s operational routines from an organizational population (Nelson and Winter 1982), as pristine failure implies. But

¹ It is difficult to distinguish between formal and informal organization in most organizational studies, but this project provides an exception. If we take formal organization to be codified and backed by the legal and contractual apparatus of the firm, it is clear that most of this structure is destroyed through liquidation, altered through reorganization, and ripped apart by layoffs. The leftover instances of informal organization do not represent the entire spectrum of informal organization, but only those aspects that can survive failure.

sometimes routines and norms survive organizational failure, and the same people continue to do the same work in a very similar way through *post-failure continuity*, where key parts of failed firms are transferred to new or surviving firms². In an extreme case, the organization may be indistinguishable to outside observers like customers and suppliers, but more often, pieces of an organization survive failure through the care and attention of former employees, some of whom work together to achieve common ends.

Routines can also change or be lost within the bounds of solvent firms. A substantial literature covers the topic of *business as usual*, where routines persist in ongoing organizations. A smaller but well-established literature on change and *organizational transformation* addresses the process through which organizations establish new routines. The established literatures on *business as usual*, *organizational transformation*, and *pristine failure* leave an open question of how routines survive organizational failure. Little has been done to study *post-failure continuity*.

Next I will describe each of the four categories in detail, and document their placement within the field of business ethics.

² Aldrich and Ruef explain the connection at the population level as follows: “Prior numbers of disbandings have been hypothesized to affect founding and disbanding rates by their effects on resource availability and on entrepreneurial knowledge and intentions.... [S]ome resources are tied up within the boundaries of existing organizations, and entrepreneurs only have access to them when those organizations disband. Many foundings replace defunct organizations, as disbanding create openings in niches that then become available to new organizations (e.g. physical plant locations). Prior disbandings also free resources for use by existing organizations, thus lowering the current organizations' likelihood of disbanding” (2006: 221). But population ecologists who attempt to measure these effects do not have the data to specify the actual mechanisms. Rather, each specified mechanism should be treated as an untested hypothesis.

Business as Usual

Most business scholarship focuses on the everyday maintenance of organizational operations and routines. Academic researchers provide answers to real challenges of business life. If a manager faced a decision about who to hire, where to locate, how much to invest, to whom marketing should be directed, how employees should be motivated, how tasks should be broken up into jobs, or how to encourage creativity in project teams, that manager could consult a broad base of research. Most of what is taught in business school is centered on business as usual.

The category also includes the majority of research in business ethics. Research topics as diverse as corporate social performance, codes of conduct, moral awareness, stakeholder theory, the treatment of employees, supply chain responsibility, the moral permissibility of insider trading, and professional responsibility all fit into this category. Even business scholars who question the relationship between corporate social and financial performance (e.g. Margolis and Walsh 2003) tend not to discuss the relationship between social performance and survival, much less failure.

It is appropriate that most business research be applied to everyday practices, and so with business pedagogy. Many firms, small and large, survive for years. During these years of survival, they make decisions that are economically and morally relevant, and worth the applied attention of business academics.

Organizational Transformation

Organizational transformation occurs when a firm departs from its routine practice to adopt an alternative approach. Though there are a number of books that

purport to instruct managers on organizational transformation, true transformation is extremely difficult to achieve, and the business literature often overstates the power of the available tools to achieve it (Davenport and Stoddard 1994). Indeed, there are unintended consequences to many changes, including the possibility of what Carroll and Teo (1996) describe as “creative self-destruction.”

Organizations tend to have a path-dependent quality. Like people, they are habituated in certain circumstances, and their operational capacity is limited by what they are used to doing. Profound reorganization is unlikely within the confines of the firm. There are several reasons classically given for this path dependency in organizational process. Hannan and Freeman (1977) give four internal and four external reasons for organizational inertia:

1. Specialized assets and personnel are not applicable to all activities.
2. Limited organizational information is available to managers.
3. Internal politics are destabilized by change.
4. Extant norms define the right way activities should be done.
5. Legal barriers to entry and exit preclude some options.
6. Managers have limited external information.
7. Change may be perceived as illegitimate.
8. Collective rationality for organizations is uncertain.

Of these, asset specificity, bounded organizational rationality, political and normative inertia, and external legitimacy have each developed into expansive research topics. Organizations develop a specialized way of doing things that is sometimes too deeply

embedded within the organization to be consciously managed. One example of this is the organization of a firm around the functional components of a larger assembly. The organization of the assembly is written onto the social and bureaucratic structure of the firm to such a degree that the firm cannot simply be reassigned to a new assembly.

Though the aspiration of organizational transformation remains, the leading advice for firms facing disruptive technological innovations is not organizational transformation at all. Instead, scholars like Clayton Christensen (1997) suggest that firms create functionally discrete organizations to deal with emerging technological opportunities. From the perspective of organizational transformation, this is cheating. If a manager sets out to save a firm that would otherwise fail, and she ends up instead creating a new firm with different employees as an incubator for an alternative approach, there is a sense in which that manager has failed to do as she hoped. What she has done is create a lifeboat organization that may eventually grow into a fallback setting for many of the core business employees and managers. In so doing, she has left the realm of transformation management and entered an increasingly important subfield of business as usual: corporate entrepreneurship. While corporate entrepreneurship may maintain market dominance amidst otherwise catastrophic change, it is not actually a strategy designed to change or increase flexibility within a given organization.

A second approach views change as an organizational technique, as absorptive capacity (Cohen and Levinthal 1990), organizational learning (Fiol and Lyles 1985), and dynamic capabilities (Eisenhardt and Martin 2000; Teece, Pisano, and Shuen 1997). These literatures document the development of routines for change, either through the

collection of external information or through internal innovation procedures. In either case, organizations are meant to routinely change by becoming responsive to their environments. Using the information that they find, organizations can adjust to changing circumstances. Once again, there is a sense in which this is cheating. What absorptive capacity is intended to do is to subsume the change process into the core functions of the firm's routine. Christensen and other advocates for corporate entrepreneurship would argue that this internalization of change is hindered by structural features of the firm, irrespective of intent. The argument is moot from the perspective of organizational transformation. Whether the incumbent firm is to fail while founding its successor or to routinize change, either path departs from the conceptual category of organizational transformation.

The third option, which is probably the brightest hope as an account of organizational transformation, focuses on the individual persons who are themselves subjected to, and agents in change. Kanter stakes this claim in the introductory passages of *The Change Masters*:

People seem to matter in direct proportion to an awareness of corporate crisis.... Not long ago, when American companies seemed to control the world in which they operated, it was easier to ask the people within them to just fit into the "system" and to assume that the "system," not the people, was responsible for success. But when events disturb the smooth workings of corporate machines and threaten to overwhelm us... and change requirements go up... individuals actually need to count for more, because it is people within the organization who come up with the new ideas, who develop creative responses, and who push for change before opportunities or minor irritants turn into catastrophes. Innovations... are designed not by machines but by people (1983: 17).

Though Kanter locates innovation within the people of the firm, her argument focuses on the organizational structures that permit change. She sustains a critique of

“segmentalism,” which she defines as a “style of thought [that is] anti-change-oriented and prevents innovation... because it is concerned with compartmentalizing actions, events, and problems and keeping each piece isolated from the others. Segmentalist approaches see problems as narrowly as possible, independently of their context, independently of their connections to any other problems.” (: 28). What Kanter suggests instead is “integrative action,” which allows individuals to approach problems holistically and to work across boundaries to solve them.

Kanter is not proposing that the firm should be understood as ultimately individual in nature. In fact, she explicitly rejects this view (1983: 59). However, she is arguing that organizations must make room for individuals to solve problems rather than treating individual variation as the problem to be solved. She makes her argument based upon cases where organizations “master change” by allowing employees to solve problems, and contrasts these firms with organizations that fail to do so. Insofar as employees are able to do as Kanter suggests, to reconfigure basic aspects of their employer by working across organizational boundaries, this would seem to achieve organizational transformation. The crucial point in Kanter’s argument is that the people must change the system, rather than the reverse. There are ways in which organizations have become more receptive to their employees and constituencies, but the glimmers of workplace participation and “product quality circles” that Kanter noted affirmatively in the early 1980s have not taken root as universal practices. Even so, the firms that have been transformed have done so through the efforts of their employees and managers.

Ethical innovation is not as central to business ethics as managerial innovation is to management. If anything, the field is more concerned with avoiding change; that is, protecting personal values from the pressures of business life. This may be interpreted, in turn, as a strategy for improving organizational values, but if that is the intended effect it is only sometimes stated as such. Efforts to legitimize organizations by changing their reputations amidst a crisis of legitimacy (e.g. Pfarrer et al. 2008) may or may not be transformational, depending on whether the efforts result in surface or substantive change.

Moral awareness as a basis for organizational change (e.g. Trevino 1986) requires that people have already developed a sensitivity, often from before they arrived at work, though standard managerial strategies to impose policies through “tone at the top” and codified rules are also subject to considerable discussion. But when insensitivity is ingrained in the fabric of organizational logics, it becomes even less likely that organizations will realize the errors of their ways (Gioia 1992).

Yet, the importance of individuals as change agents has recently come to represent a significant consideration in business ethics pedagogy. The *Giving Voice to Values* curriculum uses scenario-based cases to encourage students to work through how they would do the right thing, rather than making the determination of what is right (Gentile 2010). In so doing, the explicit pedagogical emphasis is placed on developing scripts that students can carry into the dilemmas that they face. Thus, the field may be showing an increased interest in the dynamics of organizational change.

Pristine Failure

Pristine failure occurs when all norms and routines are lost in the course of an organizational collapse. Every year, approximately 600,000 firms fail in the United States. Of these, 95% have fewer than 20 employees (Small Business Administration Office of Advocacy 2010). Though failure is common, there is no study or established methodology for determining how many firms survive through post-failure continuity. Instead, it is generally assumed that failure is final.

For the purpose of categorizing research, almost every study of organizational failure, exit, or death can be said to presume pristine failure. As far as the data and method are concerned, the story ends when the firm collapses. There are two key literatures to consider, organizational death and population ecology. In studies of organizational death, the focus is on the closure and parting processes. Some of these studies reference the job prospects of individual employees (Sutton 1987), or the process of learning through failure (Shepherd 2003), but other studies of organizational death make no reference to post-failure outcomes at all (Hager and Galaskiewicz 2002; Harris and Sutton 1986). Though there is little research on post-failure outcomes (Walsh and Bartunek In Press), there is a substantial body of work on the prolonged process of decline, which makes no mention of post-failure outcomes (Cameron, Whetten, and Kim 1987; D'Aveni and Macmillan 1990; Whetten 1980).

In population ecology, the data tend to be far too general to permit the examination of post-failure outcomes. There is, however, some consideration of the aggregate effects of failure at the population level, asking the question of whether prior

failures anticipate subsequent failures and foundings (Barnett and Amburgey 1990; Baum and Oliver 1991; Delacroix and Carroll 1983; Land, Davis, and Blau 1994). At the industry level, there is no opportunity to link failed firms with post-failure outcomes, and the data limitations alone condition the conceptual orientation towards pristine failure.

Pristine failure is not just the de facto product of a blind spot in empirical analysis. It also constitutes a fundamental building block in evolutionary theories of the firm. In particular, pristine failure is a necessary ingredient of selection at the firm level. The multi-level nature of economic processes has been under consideration in population ecology since early in the development of that literature (Hannan and Freeman 1977). More recent updates on evolutionary approaches to organizations (Aldrich and Ruef 2006) make reference to the different levels at which organizations can evolve, but most scholarship is committed to evolutionary selection as an organizational phenomenon³. In fact, individual-level literatures that discuss selection often ignore the conceptual link to evolutionary thinking (Schneider 1987).

In biological systems, both survival and reproduction play key roles in the dominance of traits within a species population, which we call evolution. Because organizational failure is the nearest match to one of these mechanisms, it has received a good measure of the attention. However, at the same time, organizational theorists have

³ Hannan and Freeman's initial approach to population ecology specifies five levels of analysis, "(1) members, (2) subunits, (3) individual organizations, (4) populations of organizations, and (5) communities of (populations of) organizations" (1977: 933). Levels 3, 4, and 5 are argued to be the appropriate levels at which organizations interact with their environments. These levels are mapped onto the biological ecological levels of organisms, populations (of a species), and communities. The problem is, as Hannan and Freeman acknowledge, "The added complexity arises because organizations are more nearly decomposable into constituent parts than are organisms" (: 934). But despite this early acknowledgement, there is very little subsequent treatment of the decomposition of organizations, a process that occurs forcibly upon failure.

observed other mechanisms through which traits become dominant in an organizational population. In so doing, the biological metaphor is replaced by institutional mechanisms like mimicry and coercion (DiMaggio and Powell 1983). With the introduction of these sources of adaptation, selection is relegated to a secondary status, cleaning up those organizations that fail to adapt to institutional pressures. There are still factors in organizational heterogeneity that are non-adaptive, like differing starting conditions (Stinchcombe 1965; Swaminathan 1996), and these will only change if they are selected from the organizational population, provided that the organizational attributes are not carried into other firms post-failure.

The possibility of incomplete failure is an addendum to the firm evolution paradigm. Post-failure continuity is an important lacuna in organizational theory, and finding ways to understand organizations through the people who pass through them is a key development in a more dynamic view of the modern firm. If the addendum is accepted, the category of failure is split into two. Once pristine failures are distinguished from continuity outcomes, selection may still apply, but it will do so through a two-step process whereby organizational attributes are decomposed with some probability of post-failure recomposition.

Though failure plays a very important role in organizational theory and management research, failure is not a particularly well-researched subfield in business ethics. There is a sparse literature on bankruptcy that focuses on strategic (optional) bankruptcies (Johnson 1986). The most common references to organizational failure concern what is pragmatically feasible for businesses. It is generally asserted that

businesses should not be morally obliged to do more than they can afford to do (Dunfee 2006). Chapters Five and Six reconceive the relationship between obligations and failure. Rather than viewing the possibility of failure as a limitation on what a firm might be obliged to do, failure is understood as a choice, sometimes the best available choice.

Post-Failure Continuity

Most organizational research assumes pristine failure. Yet, this runs counter to the ecological intuition that death makes resources available for the living and newly born. This “life-cycle” intuition is expressed in organizational terms as post-failure continuity. It is a firm-specific outcome indicated by the survival of organizational norms and routines outside of the failed firm. Though continuity could also occur through transferred physical capital, real estate, or intellectual property (Hoetker and Agarwal 2007), these vectors are not the focus of the present analysis. Instead, I focus on the employees. Because employees are capable of adapting and reclaiming proto-routines and proto-norms from their prior experience, their careers provide a non-specific mechanism for post-failure continuity. Many employees have a keen sense of the organizational processes that make their work possible, and they make choices that result in the persistence of organizational routines.

As job tasks become increasingly specialized within highly specialized organizations, the process of post-failure continuity becomes more important. In a relatively un-specialized social order, individuals could move their labor into other entities with little costly retraining. Specialization locks employees into long-term

relationships with the firms through firm-specific human capital investments, and inter-organizational continuity allows individuals to recover some of their investment.

There is little research on post-failure organizational outcomes. Hoetker and Agarwal (2007) show that the patents of failed tech companies are still cited after firms fail. While these citations occur less often than citations of surviving firms, they continue nonetheless. Failure research asked the question of how these connections are built, and whether organizational failure could stimulate new venture formation (Whetten 1987), but these questions are only recently being answered. Walsh and Bartunek (In Press) provide one of the first general statements on how failure connects with founding. They argue that failure inspires founding, driving the creation process among entrepreneurs through an affective impulse to preserve what might otherwise be lost through firm failure. Using a sample of six “ex-morte organizations,” they suggest that post-failure firms gather around shared nostalgia and prized resources that are won from the failing firms. The post-failure identities that they examine are stronger than any recorded here, which is a likely byproduct of their focused sampling technique. Whereas the present study begins with failed firms and attempts to describe the diverse fates of former employees, Walsh and Bartunek identified organizations that descended from failed firms, focusing exclusively on failed firms with more than 1,000 employees at failure and post-failure organizations that were incorporated entities. Their study samples backward through post-failure entities, whereas this study samples forward through entities that have failed. Theirs provides rich detail on the entrepreneurial process, and is a unique

study of the post-failure context. There is no comparable research on the fates of norms and routines in organizational research or in business ethics.

The remainder of this chapter considers the applicability of extant theories to the post-failure context and the project objectives through the formulation of research questions. The chapter concludes with a section on the contributions that the project makes to academic research.

Discovering or Developing a Theory of Post-Failure Continuity

Perhaps there is a reason that the domain of post-failure research is so empty. It may be that routines are decimated by organizational failure and that the rare cases of survival are insignificant twitches in the already dead corporate body. There are reasons to be skeptical of the opportunities for routine transfer from failed firms. Because routines are the established sub-organizational processes that are believed to be selected from an organizational population by organizational failure, the very possibility of post-failure continuity counters the working assumptions of a dominant approach to organizational research. Moreover, from what we know of job outcomes after layoffs, the post-failure prospects are bleak. Layoffs are often devastating for individuals, careers, and families, sometimes precipitating a fall in social class described as “downward mobility” (Newman 1999). Finally, routines are not just socially embedded; they are also technologically and physically embedded in the property of the firm. Many of the productive systems of the firm are no longer accessible to employees in the post-failure context, and this should limit the persistence of routines that connect with lost resources.

Yet there are equally important developments that suggest the post-failure survival of routines. For example, network theory, regional development, entrepreneurial bricolage, and genealogical approaches to organizational research all indicate that routines and norms may survive organizational failure. I will briefly illustrate some of these connections here.

From the perspective of network theory, interpersonal social networks exist within an organization and are not wholly explained by it. Economic activity is “embedded” in social life (Granovetter 1985). People use their personal networks to make major decisions (Kilduff 1990), and these relationships are important for the firm as well. Without interpersonal ties, organizations can suffer from a “liability of unconnectedness” (Powell, Koput, and Smith-Doerr 1996). However, the failing organizations included in this study are at no risk of disconnection. Most of them encapsulated dense networks prior to failure, and ties may have become even stronger thereafter (Harris and Sutton 1986). As the classic Simmelian (1964) argument runs, conflict can help to generate and strengthen social ties.

Among network theorists, considerable attention has gone to network forms of organization, defined as “any collection of actors ($N > 2$) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange” (Podolny and Page 1998: 59). It would seem that the network form would be the most likely candidate for the post-failure entrepreneurs and freelancers. The trust relations and status orders are already established informally, and most people share an

informal understanding of the work product. Not only does the literature on network forms of organization provide ready-made description of the organizational form assumed in the post-failure environment, but it also provides some interesting research questions regarding the interplay between networks, markets, and hierarchies. Some of the post-failure projects examined in this dissertation are organized within a network form, and others are not. But whether the eventual organizational form is a network structure or not, the network form is at least an intermediate organizational form that demonstrates the potential viability for post-failure reorganization. Some network organizations are transitional stages prior to organization formalization.

Closely related to the concept of network organization (and cited widely in that literature) is the geography-based account of *Regional Advantage* (Saxenian 1994). For a variety of reasons, some industries have come to be organized regionally rather than through enduring ties between employees and firms. As one of Saxenian's managers observed, there is "far greater loyalty to one's craft than to one's company.... A company is just a vehicle which allows you to work" (1994: 97). Geographic proximity aids the transfer of information and staff between firms and reduces the cost of failure.

Organizations can be created without total commitment from their staff. It is enough for employees to believe in the possibility of the organization's goals. There are regional and geographic considerations at play in both samples of this dissertation. People seek local work in order to avoid a costly move that would be difficult for family ties. If jobs are not available, it becomes all the more likely that the employees will seek to create them. The prospects of entrepreneurship are powerfully motivated by a ready supply of specifically-

skilled labor. Saxenian's book compares tech firms in Massachusetts and California, and the different norms of company loyalty and employment transferability in the two areas. Silicon Valley's loose association between worker and firm provides a dynamic model of labor force participation. As long as new firms continue to emerge and failure remains unstigmatized, the precarious position of laid-off employees is partially rectified. When failure is not anticipated and not normalized, the experience can be devastating, particularly for those whose career strategies were entirely dependent upon a single firm. Regional processes nonetheless suggest that individual employees can undertake failure and reorganization, and that the firm itself is only one of numerous possible containers in which economic activities are organized. Regional processes are fundamental in the process of post-failure continuity. The failed firm is a testament to the regional availability of labor, but without a new project to gather this labor, smaller labor markets cannot absorb the unemployed, and geographic relocation becomes much more likely. However, the mechanism runs in the opposite direction as well, driving laid-off employees into entrepreneurship in order to avoid relocation.

A third key support for the theory of post-failure continuity is entrepreneurial bricolage. Entrepreneurial bricolage is "making do by applying combinations of the resources at hand to new problems and opportunities" (Baker and Nelson 2005: 333). The term bricolage originates in the work of Levi-Strauss (1967), but a more proximate and domain-specific argument can be found in Penrose (1959), who argues that firms derive their value not just from the resources that are available to them, but from their skill at combining and reconfiguring the available resources. The emphasis on recombination as

a source of innovation goes further back as well. Schumpeter (1934) proposed that most innovation takes place with existing assets. Baker and Nelson distinguish their theory, arguing that “because bricolage often draws on degraded, fallow, or otherwise undeveloped resources to construct new combinations, it represents a form of value creation that does not depend on the Schumpeterian assumption that assets are withdrawn from one activity for application in another” (2005: 362). The socially embedded routines of a failed organization would seem to be a perfect example of the fallow resources that bricolage is meant to characterize, combined with other more Schumpeterian resources, like the human capital transferred from the failing firm to other enterprises. Entrepreneurs sometimes reach deep into the career histories of their friends and colleagues in order to gain access to information and support for their budding enterprises. Many of these capacities are unused until the entrepreneur asks that they be applied to a project. Organizational failure provides a supply of capacities for bricolage and a demand for their uptake as laid-off employees seek to redefine their work and careers. Bricolage is promoted by narrow training that people receive in large firms. Entrepreneurship does not permit specialists to avoid a diversity of work tasks, and some of these tasks require outside support for learning and establishing new routines.

The fourth theory tradition that would affirm the possibility of post-failure transfers is the genealogical or biographical approach to organizational structure. Though sociological approaches to organizational research continue to emphasize structure and to focus on levels of analysis that are above the individual, one such level involves the transitions of the individual through her career. The neo-institutionalist paradigm has

settled on the organizational field as the most relevant level of analysis. Entities are habituated into the norms of the field through institutional forces at the entity level, and individuals are habituated through the firms that they inhabit. However, as Khurana, Kimura, and Fourcade (unpublished manuscript) explain, Bourdieu's original concept of habitus was specific to an individual history "where neo-institutional studies looked at habitus in terms of cross-sectional habituation, Bourdieuan methodology emphasizes longitudinal habituation.... [T]he development of neo-institutional theory over the last twenty five years overlooks the power of biography in shaping the habitus of individual actors" (2). Their argument is closely related to an organizational research paradigm that Phillips describes as genealogical (2002; 2005). Several studies focus on the pedigrees of entrepreneurial firms through the backgrounds of their employees (Beckman and Burton 2008; Burton, Sørensen, and Beckman 2002; Dobrev and Barnett 2005; Shane and Khurana 2003). Shared history paves the way for future collaboration, both through the specific bonds that form and through the more abstract "generic subjectivity" (Wiley 1988) of common experiences that are globally rare, but occupationally frequent.

In keeping with these studies, the process of post-failure continuity operates through the individual habits and history of the persons who were laid off. However, it places special emphasis on the enduring social context of this history. It is not merely habituation that occurs within a person's history: it is their participation in a community that they may never leave. Indeed, many of the participants in this study go to considerable lengths to preserve what they can of their communities.

These are important reasons to suspect that routines and norms may be transferred from failed firms, and they provide some insight into how we might expect the process to unfold, but it should also be acknowledged that they were developed in contexts that differ markedly from the post-failure experience. Thus, while we can deduce a few possible outcomes from these theories, most of the theory development will be undertaken inductively in Chapters Three and Four using observations from the post-failure experiences of laid-off workers. As a matter of process, the aforementioned theories were the guiding frameworks that I took into the field. While some of the observations from the data collection refer to other explanations and illustrate alternatives, the interaction between observation and theory is more properly documented within the empirical chapters themselves and in the conclusion. Here I argue for a grounded theory approach to this project (Glaser 1967).

As an example of how the process has unfolded thus far, consider the increased diversity of organizations found in the wake of organizational failure. The observation of increased organizational heterogeneity among the former employees of a failed firm is intuitively plausible, and may be substantiated by some theory, but the theoretical development began with an observation rather than the reverse.

This chapter began with a summary of the project and went on to map out the relationship between organizational change and organizational survival, recognizing post-failure continuity as an underexplored phenomenon. Different theoretical traditions that are suggestive of post-failure continuity were then surveyed. Because these literatures were not tightly connected with the research question of interest, a grounded theory

approach is deemed most appropriate. The chapter concludes with the next section, which explains the research contribution of the project.

Research Contribution

Despite the likelihood of organizational failure, important consequences of failure are poorly understood. Chief among these are the prospects and process of post-failure organizing. There are few post-failure studies, and none that concern the survival of norms and routines. For those who are concerned with failure, crisis, unemployment, and economic change, this dissertation explores topics of direct interest.

Beyond telling an interesting story, the objective of this project is to provide a framework that helps us to understand many other processes and narratives. The contributions of this study are aimed at “theories of the middle range,” (Merton 1957) a scope of inquiry below the grand attempts at a general statement of social processes as scientific law, but above the “workaday hypotheses” of scientific practice. There are four ways in which I believe that this study contributes to theory.

The first contribution is to re-categorize some entrepreneurial firms by their post-failure associations and to note the important role that such firms sometimes play in stimulating organizational change. The contribution builds on recent work in entrepreneurship (Walsh and Bartunek In Press) by explaining the implications of post-failure entrepreneurship for institutional theory, especially the diversity of organizational forms and norms within a given field. Post-failure projects may seek some of the more radical or innovative changes by experimenting with alternative organizational strategies. The established theory of industrial change pits the internal developments of incumbent

firms (Kanter 1983) against new entrants (Schumpeter 1934) as the agents of change and growth. My research proposes a third, hybrid alternative. Displaced workers of failed firms are, in the first sense, liberated from the iron cage of organizational life. Yet, they remain tied to its social, economic, and technological apparatus. These agents have worked for established firms, and seen them flounder. Thus, while failure is a part of their pedigree, so are its lessons. Though the theory has not been elaborated before, the observation is not so different from Saxenian's (1994) example of employees leaving the falling star Digital Equipment Corporation to start new firms in Silicon Valley. Many of these departures were voluntary, but they exemplify the spirit of individual transitions from firms that are failing.

As a second contribution, the research adds to emergent discussions of career pedigrees and organizational histories. Though there is little research on how industries learn from failure (Miner et al. 1999), recent developments in entrepreneurial research lay a helpful methodological groundwork for considering failure as an antecedent to the formation of new enterprise. As Sørensen and Phillips explain:

The structural characteristics of existing organizations are transmitted to new organizations in part through individual career histories, as work experiences in established firms shape the attitudes and abilities that individuals bring to new organizations (Sørensen and Phillips 2008: 2).

Many work history studies focus on senior managers whose experience is crucial to the strategic orientations of the firms that they inhabit (Beckman and Burton 2008; Boeker 1997; Sørensen 1999). Studies also focus more directly on the pedigrees of entrepreneurial firms (Beckman and Burton 2008; Burton, Sørensen, and Beckman 2002; Dobrev and Barnett 2005; Shane and Khurana 2003). Work history studies lay an

important conceptual framework for thinking about inter-organizational transfers through the most obvious vector: a human host.

The genealogical metaphor may be helpful in thinking about organizations, but the lineage of an organization has the potential to be more complicated and dynamic than a biological lineage. Moreover, career history studies tend to rely upon the transitions of individuals who move between firms. In most cases, these studies cannot distinguish between the circumstances that led to the inter-firm mobility. Thus, post-failure mobility is represented as an unidentified component of other mobility studies. The special character of post-failure mobility derives from the simultaneity of discharge within a community and the solidarity that catastrophic change precipitates. These factors allow individuals to choose to work together without violating the trust and expectations of former peers. Phillips (2005) shows that the genealogies of law firms are associated with the involvement of women in positions of authority: firms that subordinate women beget firms that subordinate women. Work like this is inspirational to the formulation of the present research question and study design, and the present study moves that research forward by recognizing personal agency in organizational inheritance. Thus, while it remains likely that individuals will carry with them proto-norms of practice that are uncritically sustained, the research makes room for choice in the norms that groups establish, conceived as choices between norms that will be to leave behind and norms that will be re-established. The fact that these observations include some organizations where multiple contributors worked together on a nascent project increases the opportunities for transmission and critical engagement.

The third contribution occurs in the development of a new approach to the analysis of firm failure. By collecting post-failure measures of important productive capacities, a new baseline for the loss-rate of organizational churn can be imagined. Organizational routines are at the center of the productive capacity of a modern economy (Nelson and Winter 1982), but as of yet there is no good way to measure the utilization and survival of these important economic assets. As firms are founded, grown, merged together, and dismantled, an alternative baseline for the costs and benefits of organizational churn can be conceptualized through the growth, persistence and destruction of routines. People who have lost organizations can explain better than anyone else the value that these organizations provide.

Finally, the study contributes building blocks to the theory of the firm. It responds to established evolutionary thinking on organizations and firms by calling for a symbiotic evolutionary theory of organizations and economics. By refocusing on the routine as a fundamental productive unit, this study suggests that the important essence of an organization may sometimes be preserved across organizational generations. In biological systems, important complex proteins, nutrients, and forms of energy are passed from one organism to another through mutually beneficial symbiotic relationships. Many evolutionary biologists assert that symbiosis is a more important factor in survival than competition. The study of economic organization is steeped in economists' fixation on competition amidst scarcity, an orientation that might seem incompatible with the symbiotic perspective. But the major shift in evolutionary biology to an interest in symbiosis occurred amidst a re-conceptualization and integration of different insights

from different levels of analysis. By recognizing porous boundaries of individual organisms and the importance of other organisms to the processes within an individual, biologists began to realize that the “compete and survive” conception was insufficient to explain many evolutionary outcomes.

Population ecology and the sociology of organizations have not been blind to the importance of mutualism (Barnett and Carroll 1987). However, without a conceptual apparatus that conceives of production within and across firm boundaries, important symbiotic processes have been unobservable. Thus, the fourth contribution of this study is to begin integrating levels of analysis to illustrate interdependencies that are otherwise obscured by incompatible forms of measurement. A similar feat is already accomplished by Saxenian’s arguments for “protean places” that sustain innovation through risk taking and porous firm boundaries. Indeed, geography will appear regularly in the analysis as respondents pit their social contexts against their career objectives. But when firms close, the effect is not merely regional. Sometimes they cast employees on job searches that lead them thousands of miles away, often in the quest to make something out of the routines that they already possess.

There is reason to hope that this project will be of interest to academics, particularly those academics who work in the fields of business ethics, organizational theory, and strategy. When Davis (1971) sought to define what makes a theoretical contribution interesting, the most salient feature that he identified was the denial of the assumptions of an audience, and on this feature I hope that my work does not disappoint. It does, in many respects, deny assumptions about the finality of failure, the

organizational nature of routines, and the selection-based nature of organizational evolution through failure. But I hope that the project also does justice to the meaningful and challenging experiences that the study's participants have faced in the wake of organizational failures.

CHAPTER TWO: A METHOD FOR POST-FAILURE ANALYSIS

Introduction

Ignorance of post-failure processes follows directly from data limitations. Most archival data sources are unable to demonstrate linkages between failed firms and other organizations because they lack the observational detail to demonstrate (1) that new and incumbent firms are connected to failing firms via employment histories and other resource transfers, and (2) what organizational resources are recoverable from the failed firm. Direct observation and surveys conducted among or within organizations suffer from the same limitations because gaining access to an organization is costly and generally concerned with ongoing activities. Failed firms, laid-off employees, and departures from an industry are all hidden within a black box of unobserved organizational heterogeneity.

This dissertation examines post-failure continuity in two industries using qualitative, semi-structured interviews. These interviews document the routines and norms of the failed organization and the survival of routines and norms in the current productive context of the interviewee. The first chapter on theories of post-failure organization justifies an inductive, grounded theory approach rather than a deductive approach that proposes hypotheses and tests them, but the theory contribution of the research product depends upon many of the same factors as a deductive project. Both should aspire to generalizability, clarity, and usefulness. This requires care in specifying the scope of the phenomenon under observation, in the present case, failure. It requires

attention to the structure of the sample and the selection of the industries from which that sample is to be drawn. And it requires a procedure for identifying organizational characteristics within the narratives of individuals.

Failure as Job Death

The complex and multifaceted nature of failure is discussed above (p. 3), and the conception of failure within organizational analysis is shown to be the obverse of organizational performance and distinct from organizational disbanding. Because diverse stakeholders have distinctive performance expectations of the organizations with which they are involved, organizational failure can mean several different things. This is the case regardless of the position that one takes in the stakeholder vs. shareholder debate (Agle, Mitchell, and Sonnenfeld 1999; Donaldson and Preston 1995; Jones 1995).

Whether a firm is meant to serve its shareholders first, or some other balance of interests, the failure of a firm to meet the expectations of multiple stakeholder groups is a negative organizational outcome. A firm can fail its shareholders through financial underperformance, fail to meet its contractual obligations to customers, fail to provide safe ongoing employment, or fail to repay its debts. For each of a firm's stakeholder relationships, there is a possibility of failure. Many failures concern multiple stakeholders simultaneously; for instance, when Enron collapsed, it simultaneously failed its shareholders, creditors, and employees.

This study focuses on forms of organizational failure that result in significant layoffs, a category that includes organizational "death" (disbanding), liquidation, decline, and strategic layoffs. Most often, the category overlaps with underperformance in other

stakeholder relationships as well. However, it is possible that strategic layoffs lead to increased profit, creating a success for shareholders and a failure for employees. To exclude these cases, all of the firms in this sample were also under bankruptcy protection.

Regardless of whether firms are failing financially, layoffs are a good place to start in an effort to understand the transfer of organizational attributes. Employees are the most flexible mechanism through which routines and norms have an opportunity to transfer. There are other ways that routines can transfer. For example, a failing organization might close a factory and make its physical plant, capital equipment, and former customers available to competitors. However, these transfer mechanisms are industry-specific, whereas employee job displacement generalizes to all firms. Ongoing employment is also an important indicator of organizational health. We would not generally say that companies should maximize the number of people that they employ, but it is certainly the case that companies are meant to fulfill their employment contracts, and it is commonly argued within business ethics that employees who have made firm-specific human capital investments have special rights within the firm as key stakeholders who should be treated fairly. But the rationale need not be viewed as a zero-sum game. The notion that employees, as individual persons, have rights that should be respected by company policy (Radin and Werhane 2003) is entirely compatible with the empirical claim that companies find success by respecting their employees (Pfeffer 1994). As joblessness becomes a larger concern in public policy, it is likely that the organizational imperative to provide employment will continue to be a key aspect of the social responsibility of business and the conception of organizational performance. For all of

these reasons, it seems wholly appropriate to center a study of organizational failure on layoffs and lapses in the provision of employment. Thus, while I do rely upon a multi-stakeholder conception of failure in my approach to the study and my sampling strategy, I take employees to be the focal stakeholder in the failure reconfiguration process.

Some of the organizations in this study are appropriately characterized as “organizational deaths,” but it is the death of jobs that unifies the experiences of the participants in this study. Many were laid off from organizations that collapsed entirely. Some anticipated a collapse and found alternative employment before their jobs were eliminated. Others were laid off because of their seniority and thus their burden on the payroll. Still others were laid off because of their junior positions within an organization that valued tenure. Finally, some employees retained their jobs during acquisitions, moving into a different organization in the process. The destruction of occupational opportunity therefore unites a diverse set of career transitions that arise amidst organizational failure. These faces of failure do not wholly explain the phenomenon, but they offer a reasonably comprehensive account of careers amidst failure, the key mechanism for post-failure continuity.

In Chapter Seven there will be reason to consider the burden of failure and its distribution based upon the consequences of failure. In that case, I will focus on three considerations: “job death” as described above; the availability of the products and services provided by an industry or of reasonably good substitutes for these products and services; and the collapse of specific obligations that occur within the firm between stakeholders. More need not be said at this point other than to acknowledge that the costs

and consequences of failure are much more general than the loss of work, and that these consequences are also important considerations.

Industry Selection

In this study, two industries were selected for comparative analysis. The three necessary conditions for inclusion were occurrence of organizational failure, use of specialized labor, and a long-term demand for the services provided by the industry. Thus, rather than developing a sample for the study of change amidst technological obsolescence (Tripas 1997), this study focuses on industries undergoing a process of redefinition with total collapse being an unlikely outcome. The argument hinges on an ongoing need for the services provided within these industries, particularly the routines of the study participants.

The industries were also selected for their differences. Because the study questions relate to norms of practice, career motivations, tenure, and productive routines, it is useful that the selected industries should differ on these characteristics. Newspapers and investment banks met all of the necessary criteria. These are two important, enduring, and dynamic industries, and they differ in other interesting ways. One virtue that justified the chosen industries was the multiple levels of complexity within newspapers and investment banks. Investment banks and newspapers have failed at multiple levels: whole news organizations and large banks have gone bankrupt, subsidiaries have closed, and sections of newspapers and individual business units (“funds”) have been shuttered. This complexity introduces otherwise unaccounted-for variation of failure within a business hierarchy.

Table 2: Key Characteristics of Newspapers and Investment Banks

Industry	Newspapers	Investment Banks
Involuntary Displacement	Very frequent	Frequent
Opportunity	Low perceived employment opportunity: jobs are rare and undercompensated	Medium perceived employment opportunity: jobs are rare but well compensated
Careers	Out and up or stay stagnant: career advancement involves moves between papers	Up or out: bank experience is highly valued, and those who don't advance within a firm or don't want to stay find other opportunities
Networks	Dense and reaching: journalists know their peers well because of the collaborative, public nature of the work; movement between papers makes journalist networks far-reaching	Cohorts and hierarchies, reaching: junior bankers know their peers with whom they suffer certain abuses, and they know the chain of command above them; senior bankers develop external relationships as well.
Motivation	Normative	Economic
Routines and Norms	<p>Routines: use of visuals, perspective in photography, authorial license in writing (voice), editorial process and oversight</p> <p>Norms: "what is news?" Is a paper a mission or a business? Do marketing and publishing executives have a say on editorial policy?</p>	<p>Routines: valuation process and acceptable forms of "quantitative" evidence, emphasis on internal service audiences (CSR initiatives are employee-driven, efficiency improvements are employee driven, research products are designed for specific internal use)</p> <p>Norms: emphasis on compensation, buyer beware, trust and insider/outsider distinctions, intense competition</p>

There are a few other dimensions upon which these industries differ that will receive additional attention in Chapters Three and Four:

Social structure: Newspapers are more socially organized during and after failure than investment banks are. In newspapers, email listserves are often created to share job posts and news about former employees. These alumni networks create social ties that cross departments and tenure. The alumni organizing among investment bankers has been

comparatively modest, but there are also alumni groups organized through websites like Facebook and LinkedIn, some of which coordinate face-to-face meetings as well. Investment banks produce age-stratified social networks with ties running horizontally between colleagues and vertically within a chain of command. Analysts are hired as a cohort and trained as a group. They form social bonds with their “classmates” that persevere despite mobility within the industry. Other investment banking ties come from business school and project collaboration.

Norms of work: Both newspapers and investment banks have relatively strong normative environments, particularly regarding work product. Performance in news production and finance depends upon the quality and timing of information. “Getting the story right” is a relevant process in both industries, but the normative similarities end there. Interviews focus on a subset of norms within each of these environments. In newspapers, it is the questions “What is news?” and “How should news be presented?” that motivate many of the shared understandings and conflicts within papers. In investment banks, it is quantification in the use of financial models, receptiveness to internal feedback, and the emphasis on external perceptions.

Compensation and career motivations: Though both newspapers and investment banks employ members of a skilled and educated elite, the relative and absolute differences in compensation are profound. Newspaper journalists are poorly compensated relative to most other skilled careers, whereas investment bankers are highly compensated relative to most other careers. The compensation orientations interact with the organizations in interesting ways: investment bankers are much quicker to move if

they perceive a better economic opportunity elsewhere, whereas journalists may depart based upon other motivations, like the perceived threats to journalistic integrity.

Employee age: Newspapers and investment banks differ substantially in the age of the workforces that they employ. Investment banks operate with a pyramid-based demographic model, where a few older people manage a larger and younger population. Newspapers, on the other hand, tend to be less age-stratified, so that reporters may continue as journalists throughout their careers without a move to management. Editors tend to be seasoned journalists, but not all senior journalists are editors. There are long tenured positions in banks for analysts and other specialists, but even these positions involve advancement in titles and reporting relationships so that the nature of the work also changes.

Sampling Strategy

The sample in this dissertation identifies laid-off employees within failing firms within failing industries. Thus, the sampling occurs at two different levels within two different industries. After surveying the diversity of newspaper failures, four papers were selected: one well-regarded paper that closed entirely, one prestigious paper that conducted layoffs, a paper that managed to maintain a good reputation despite a gradual decline and eventual failure, and a paper that is known widely for a precipitous decline in quality along with massive layoffs. The investment banks were selected for two variations in bank failure. One was acquired as a severely weakened party in a distressed acquisition. The other entered into bankruptcy and was broken into businesses that were maintained, closed, or acquired.

Having selected organizations from within these industries, the next stage of the study required the identification of individual employees from failed firms. Sampling employees involved a two-stage process in both newspapers and investment banks: identification of initial contacts, and expansion through snowball sampling techniques. In the news organizations, journalists were contacted through public contact information. Journalists proved to be extremely generous as study participants. Nearly all of the journalists I contacted agreed to participate, and most suggested several others to contact. Newspapers are also relatively porous organizations in the sense that information is widely publicized. Both disbanded organizations published the names of all of their employees in their final issue of the paper, and complete lists of all laid-off employees in the surviving papers were available through online sources along with a commentary on the layoff decisions.

Relative to newspapers, investment banks are much more opaque. Investment bankers and analysts were initially contacted through an outdated alumni database that continues to list potential respondents as employees of now-defunct organizations. Many of these individuals have since moved on, and many of their email addresses are out of date, but the initial sampling procedure was sufficient to initiate the study. Another strategy involves identifying firms that acquired portions of a failed bank within a specific region, and then searching for that bank's employees within the same alumni database. A quick search of publicly available work histories on LinkedIn.com narrowed the sample to confirm that bankers had in fact worked in the firm of interest.

The biggest contrast in interviewee accrual concerns snowball sampling. Journalists provided as many as 300 email addresses of alumni from their organizations, and almost every interviewee suggested five or more former colleagues as potential participants. Several journalists sent emails to introduce the research project to their friends and former colleagues. In one case, a journalist generously arranged a lunch with four survivors of the same organizational failure. In contrast, snowball sampling among investment bankers proved almost completely ineffective: only one interview arose from the suggestion of a peer, and in that case it was agreed that the contact be made in confidence without the recommended person knowing the identity of recommender. The journalists whom I interviewed are more often known to one another than the investment bankers whom I interviewed. In order to minimize the bias associated with interviewing a single clique of individuals, I approached several individuals from each paper. Most were nonetheless acquainted, but these relationships are not an artifact of the sampling strategy. In either case, one might expect some response bias among the sample which would make it more likely for agitated or aggrieved former employees to respond than those who would protect their company and industry's reputation. I sought to minimize these effects by focusing recruitment materials on individual careers rather than salient characteristics of failed firms. Though it is difficult to determine what sample selection bias resulted from the ineffective snowball sampling strategy, I found little coherent evidence of a unifying perspective among respondents. A few respondents did admit to wishing ill upon their former employers, but the dominant narrative of regret for unfortunate outcomes and recognition of complex causes offset these views.

The backward-looking approach of this research strategy opens the way for a wide variety of post-failure analyses. Because the social networks of failed firms are largely intact, it is possible to sample into these firms through snowball or network-based techniques with relatively comprehensive coverage. The least connected participants of the firm are likely to be excluded from the analysis. It may be presumed that these isolated persons have little access to the routines and norms of the failed organization.

The post-failure context provides a natural experiment for researchers who are interested in understanding informal organization and its relationship to formal organization. Organizational failure strips informal organizations from their formal setting, and the resultant painful process provides a repeated opportunity for researchers to unravel the complex entanglement of how economic relations are embedded within social relations, even as survivors redefine themselves and their productive contexts.

Prioritizing and Observing Norms and Routines

In order to link failed firms to new and established organizations, one must first define the medium through which these organizations are connected. Such a medium could take many forms. Some things are obviously lost to displaced workers: letterhead, business cards, and job titles are no longer useful once a person loses her job. However, other things survive. For example, occupational status, knowledge of organizational process, and social capital all have the opportunity to survive the failure of a firm depending upon the process of post-failure organizing. In order for the connection between the firms to be non-trivial, the linkages must concern aspects of the firm that are important or highly valued. If we found that survivors wear the same shoes in failed and

newly founded organizations, we would have little evidence that the organizations are materially connected. We need to document the connection through resources or processes that are directly connected to the very essence of the firm.

Though organizations can be understood in many ways, an organization's norms and routines are certainly essential aspects of what makes a firm operate in the way that it does. In this section I will explain why norms and routines are so important to the substance of an organization and how they are recognized through qualitative analysis. These concepts will be further refined in the third and fourth chapters.

Routines

Organizational routines are socially and technologically embedded work processes. In the language of strategy research, the "routine" is an expansive metaphor for the many patterns, policies, practices, interactions, techniques, and procedures of an organization. Within organizations, patterned actions result from predictable responses to "triggers" (Becker 2004). The predictability helps to maintain the basic interpersonal expectations between competing interests within the firm. This "truce" (Nelson and Winter 1982: 107) in the way that things are done provides one of the important overlaps between routines and norms. Though many routines are negotiable, some routines are reinforced by social norms that provide motivations for individual behavior. For example, newspapers promote short meetings because of deadlines. Short meetings are the routine, and they are also enforced as norms: if a meeting were to run too long, complaint would be a likely result. If a norm is followed with sufficient regularity, it is also a routine. Importantly, many organizational processes are sufficiently routinized to avoid conflict

all together. So long as the routine is followed according to the established truce, no conflict is warranted. Chester Barnard described this area of agreement as a “zone of indifference” (Barnard 1968 [1938]: 167).

Organizational routines are among a constellation of managerial concepts that are neither easy to define, nor easy to distinguish. “Routine” describes a subset of activities within most organizational contexts. Nelson and Winter define them broadly:

Our general term for all regular and predictable behavioral patterns of firms is “routine.” We use this term to include characteristics of firms that range from well-specified technical routines for producing things, through procedures for hiring and firing, ordering new inventory, or stepping up production of items in high demand, to policies regarding investment, research and development (R&D) or advertising, and business strategies about product diversification and overseas investment (1982: 14).

Later their definition moves closer to the individual level:

“We use ‘routine’ in a highly flexible way.... It may refer to a repetitive pattern of activity in an entire organization, to an individual skill, or, as an adjective, to the smooth uneventful effectiveness of such an organizational or individual performance.” (1982: 97).

Amburgey, Kelly, and Barnett (1993) note the overlapping conceptions of organizational routines and organizational knowledge:

Routines refer to the repetitive patterns of activity by organizational members, both individuals and groups. Beyond defining what an organization can do, routines define what the organization knows, and writings in this area tend not to distinguish knowledge and action. (1993: 92)

Indeed, Nelson and Winter have an entire section on “routine as organizational memory,” (1982: 99). The vagueness is useful for some approaches to organizational research.

Population ecologists, for example, have studied newspapers in several contexts (Amburgey, Kelly, and Barnett 1993; Carroll and Huo 1986; Delacroix and Carroll 1983). These industry-level datasets tend to provide lists of firms and their locations, and

the years during which their papers were printed. In most cases, researchers do not have access to very basic information like firm size, paper circulation, or price, but they nonetheless speculate about the path dependency associated with an underlying basis of routines embedded within organizations (e.g. Amburgey, Kelly, and Barnett 1993). This should not detract from the very interesting findings of population ecology, but it does illustrate the gap between industry-level analysis and any specific operationalization of the concept of an organizational routine.

While there is a general acceptance of routines as embedded organizational activity and knowledge, there is considerable discussion regarding exactly where these organizational processes are embedded. Teece (1982) distinguishes “separable” routines by arguing that for some routines, the transfer of a key individual may be sufficient for knowledge to be transferred between organizations. However, Teece claims that organizational knowledge (as distinguished from separable routines) is required in the majority of cases to facilitate the transfer of productive expertise. “Taken out of context, an individual's knowledge of a routine may be quite useless” (1982: 45). Simultaneous layoffs like those studied here may permit the transfer of otherwise inseparable routines because multiple knowledge carriers are displaced from work together.

Argote and Ingram (2000) suggest that organizational knowledge and routines should be understood as adhering to “knowledge reservoirs.” These reservoirs exist within and between organizational members, their tasks, and their tools. For example, they suggest that a transfer of a technological resource may be facilitated by the simultaneous transfer of an organizational member who may be useful in adapting the

resource. The enduring question among strategists is how organizations can develop and maintain the knowledge and routines that they require without releasing (or “spilling over”) the routines to other firms.

Though Nelson and Winter (1982) establish routines as a cornerstone of evolutionary economics, routines have a different connotation for many sociologists of work. For them, routines arise from a deliberate managerial practice of imposed order or “routinization.” Various organizational research settings, including industrial (Blauener 1964; Burawoy 1979), clerical (Mills 1951), and service work (Leidner 1993), reveal the intensity of imposed routines in workplace social organization. As work roles are prescribed more narrowly, workers lose autonomy and become deskilled and replaceable (Braverman 1998 [1974]). The central concern has been the balance of power between workers and managers. There are also more subtle considerations that relate to the experience of the work itself, Leidner explains:

I do not take the position that the routinization of service work and the standardization of human personality... are in fact benign, benefiting workers, customers, and companies in a happy congruence of interests. Often, these manipulations are invasive, infantilizing, exasperating, [and] demeaning. But if we are to understand how routinization works in service jobs and what outcomes it produces, we need an account of the relations among routinization, skill, control, interaction, and self that is both more precise and more subtle than we have yet been given. These outcomes of routinization are felt throughout society as participants adjust their assumptions about the norms guiding social interaction. (Leidner 1993: 23).

The admittedly adverse consequences of highly organized work, which depress individual autonomy, make skills superfluous, and threaten the worker’s command over a fair wage give the term “routine” a negative connotation that stands in stark contrast with

its use in management research, but in either case routines play an important role in organizational life.

The two views are not mutually exclusive. One can acknowledge the universal character of routines within economic organizations and also grant the consequences of using routines as an inflexible system of social control. Business ethics contributes one version of this distinction. Bowie (1998) argues that many jobs can be meaningful, provided that the worker's autonomy is respected and that she is given the opportunity to fully exercise her moral powers. Provided that workers are involved in the specification of their work and its improvement over time, there is no reason to think that established practices are a violation of individual autonomy. Religion provides a helpful analogue: we describe religious participation as an exercise of individual choice, yet the practices of religion are carefully specified by the rituals of the religious order. Autonomy does not require the absence of patterned social behavior, only the presence of meaningful choice between such patterns. This is the view that I develop in the present study. I look for practical regularities that coordinate work products. I view routines as indispensable components of any complex organization. Patterned behavior creates outputs that are sufficiently standard that they can consistently serve as inputs for other processes and organizations, and avoids regular interpersonal conflict.

Some routines are actually liberating, reducing the effort involved for multiple parties to coordinate their work even as the collaboration increases the opportunity for meaningful expression. For example, one paper that will be discussed in Chapter Three, the "Local Blotter," collects story ideas at the end of every weekend. Anyone in the paper

is invited to pass ideas along, so that the entire organization serves as one social antenna. All reporters are expected to submit ideas by first thing Monday morning. Many papers involve their staff in defining what stories should be written, but journalists from the Blotter note the organization's receptiveness to their ideas and make special reference to this routine. The routine establishes the active expectation of participation, and since the reporters who regularly supply story ideas are the same individuals who write the stories, the routine may be said to increase the scope of their autonomy.

There are a number of conceivable research strategies for identifying organizational routines. It is not difficult to identify regularities of process, either through participant observation, qualitative interviews, or open survey responses that elicit process descriptions. The difficulty occurs in deciding which routines matter. Of all possible process regularities, which should be considered? Situations provide their own narratives about which processes matter, but these subjective perceptions can be persistently uninformed. For example, for many years medical practitioners moved directly from autopsy to obstetrics, generally without washing their hands. Their routine resulted in the loss of countless lives, but it took decades for germ theory to catch up with the germs (Nuland 2003). It would be a tall order to hope for an internal or external evaluation of workplace routines to establish which routines are productive and which are unproductive or counterproductive. This is unlikely where the objective is clear, like the survival rate of mothers after childbirth, but it is even less likely where multiple and competing objectives vie for consideration. Most organizations serve complex interests

and objectives, and no study can assess the totality of all causes and effects within a complex system of shared and divergent priorities.

One solution is to take seriously the subjective perceptions of the relative importance of routines and norms. I take the perceptions of the workplace and the workplace routines of all workplace participants as good indicators of the importance of these observed processes. Therefore, when a study participant explains that one routine is an important part of the way that an organization works, or is something that they miss about an organization, or when the participant uses a given routine to explain the larger context, I take that routine to have been lifted out of the nearly infinite set of assumed practices as something that is distinctive and at a minimum related to the interests of the study participant, if not the wider organization. Memorable routines are sufficiently salient that they are likely to matter to the people who rely upon them.

A second issue involves the selection of routines that are specific to a given failed firm in order to understand the process of routine transfer. The challenge is to specify what is idiosyncratic about the routines of a given firm such that the employees of the firm would carry a given routine elsewhere and that it would matter. Take, for example, two firms that will be discussed in Chapter Four: “Global Investment,” a failed investment bank, and “Walls Investment,” a former subsidiary of Global that was acquired by its fund managers after Global collapsed. Stock analysts from both firms discussed the templates that they use to communicate with other parts of their banks. These templates provide a basic structure for what facts are displayed in the emails that go out to their research audience. The research audiences differ. In the case of “Walls

Investment,” the primary audience is comprised of portfolio managers who will use the information to choose stocks to buy or sell. In the case of “Global Investment,” the primary audience was a sales force of brokers who would then use the information to encourage their clients to buy or sell. In both cases, the immediate audience is internal to the firm.

What is interesting about these research notes is that the communication is technologically routinized through a structured template, and these templates are taken seriously as an important form of professionalism for what is essentially internal email being sent between people who already know each other. However, several interviewees stressed the importance of these templates within the culture at Global Investment as a way to maintain the expectation of professionalism, which one referred to as “the gloss.” The templates are a routine; their use is reinforced by policy, which is also a routine. In the background, Global Investment’s gloss is sustained by a norm that defines professionalism as an important contributor to success and an important part of the way that work is done.

Without diverse industry knowledge, it is difficult for an outsider to identify idiosyncratic organizational routines. However, thanks to their recent career transitions, study participants can easily observe the distinctiveness of a work environment and its norms and routines. The first example is from the “Regional Post,” a paper that was closed outright. The Regional Post was known for its photography, and its tabloid format allowed the display of a large photograph prominent on the first page. A very personal approach to the news was a part of everything that they did. Rachel explains:

We focused a lot on faces, and people in general. When we decided what photos to use for 9/11 or when the Virginia Tech shooting happened, I mean these were not events that happened in our backyard, but when we went to the wire photos to choose, we always sort of focused in on faces and moments and what emotions we could gather from the picture, rather than, 'Here's a picture of a building that isn't there anymore, or a picture of a building on fire,' and there was a place for those pictures in the paper, too, but they weren't the main focus. What our editor was really interested in was digging behind the event and finding out how people felt, and what they were going to do now, and how this affected our readers, and why our readers should care.

In the wake of the failure of the Regional Post, two different entrepreneurial post-failure projects sprung up as online outlets, and both tried to preserve this approach to news.

Both websites placed an image at the center of the page in a way that was explicitly photography-centered and unlike the prevailing aesthetic for online news layouts at the time. According to Rachel and her colleague Sarah, both of these organizations aimed to continue producing news content in a way that connects emotionally with the same working-class or lower middle-class audience.

This project seeks to identify process regularities from retrospective accounts of failed firms, and then to use the comparative perspective of former employees of these firms to determine whether these routines were important, whether they were idiosyncratic, and whether the employee was able to transfer the routine to a new firm.

Norms

Norms are in many ways the most important variable in this study. Social norms form a bridge between sociology and business ethics, the two key audiences of this project. Interestingly, the sociological study of business ethics began very early in the development of sociology as a discipline through a focus on social norms. Durkheim wrote his dissertation on *The Division of Labor in Society* (1997a), examining the

relationship between the formation of social bonds (“social solidarity”) and the emergence of industrial capitalism. One of Weber’s most famous works, *The Protestant Ethic and the Spirit of Capitalism* (1958), is about the transfer of religious norms into economic life, and about the sustained place of such norms even after the original religious inspiration has been removed.

Homans defines a norm as “a statement made by a number of members of a group, not necessarily by all of them, that the members ought to behave in a certain way in certain circumstances” (1961: 46). It turns out that norms are more easily defined than identified empirically. It is difficult to identify norms as an outsider to a normative context (Burg 2010), and the qualitative interview approach to newspapers and investment banks is no exception. One strategy to bridge the gap is immersion, which provides the researcher with the opportunity to learn the norms and observe how infractions are addressed. This strategy is not an option in the post-failure context, because the context under examination is at least partially destroyed at the time that the analysis begins. The advantage of the retrospective interview design is that it tends to focus the respondent on comparative differences across their own careers, but its chief disadvantage is that the researcher is not able to observe norms directly, and must instead seek corroboration from consistent responses between interviews with individuals who were displaced from the same firm.

Social norms, like organizational routines, are processes that regulate individual action through interpersonal expectations. Social norms can be formal and codified or informal and tacit. If norms are followed with regularity, they are also routines, but the

concepts remain distinct. Laws against jaywalking are an example of codified norms that are not routinely followed; they are norms but not routines. Drinking coffee at morning meetings is an example of a routine without normative repercussions. Should a journalist drink tea or water, none of her peers would care.

Social norms are rules reinforced by others, but norms need not be “social.” Many social norms also include a self-imposed component of personal values. When a social norm becomes a personal value, we say that it has been internalized. The distinction is particularly important in the post-failure context. Many journalists move from newspapers into workplaces where they are unimpressed by the way that their colleagues gather and present information:

Helen (editorial journalist at the National, then left voluntarily to take a job as a nonprofit leader): I have wanted [our nonprofit to provide] informal, accessible, good writing [that can be] fused into our whole mission... There is just such crap in the field and impenetrable information. People go into nonprofits and (a) they don't know how to write, and (b) they start writing with language that the government uses because that's where all their attentions are focused, so they're sounding like the Federal Register. I mean it's just impenetrable. I would get so bored and fall over on my face just trying to get through this stuff.

The colleagues do not establish or enforce the social norms of a newspaper; yet the journalist often continues to self-impose certain norms. These norms would seem to have been internalized into personal values. What is most important, though, is not that Helen had internalized an aesthetic for how information should be communicated, but that in a new workplace she would seek to impose that aesthetic upon her peers and employees. So, while norms may be internalized for a variety of reasons, the most interesting transition process involves the re-externalization of norms, a process through which norms are once again established as a component of a social context.

Here I will briefly outline some of the sociological and social psychological thinking on norms that suggests that such an oscillation may be possible. The internalization of norms constitutes a final stage in some of the most grandiose sociological theories, and I believe that theories of social control provide a background for a similar process in the opposite direction.

Weber concludes *The Protestant Ethic and the Spirit of Capitalism* (1958) by asserting that once religious asceticism had imposed its strictures of self-restraint on capitalism and the logic had spread, its religious origins became unnecessary and irrelevant. Durkheim (1995) argues similarly that social interaction through religion and shared symbols was crucial in the development of language, cognition, and science. The development of rationality and its norms of verification could not have happened without shared superstitions, but once rationality took hold, the superstitions were no longer necessary to maintain the norms.

At a smaller scale of social reality, the process of internalization is the overarching assumption of many interventions into business and professional ethics. Business ethics curricula are often subjected to “tests” of the norms that they instill in their students (Bloodgood, Turnley, and Mudrack 2010; Cagle and Baucus 2006; Luthar and Karri 2005; Schlaefli, Rest, and Thoma 1985). Similarly, one objective of medical internships and training programs is the “norming” process through which doctors pass. Such programs are expected to succeed, even though it is understood that most students will go on to practice in a setting that lacks the oversight and accountability mechanisms that are in place in a teaching hospital.

I do not provide an account of the moral psychology present within individual persons that generates and establishes persistent systems of value, but I take it that such an account is readily available within social psychology. The sociological strain of accounting for social structure within an individual is illustrated by Coleman:

It is useful to begin with the extreme case, a person who has so strongly internalized the goals or interests of others that the “actors” inside that person are simply reflections of actors outside; the system of action here is a kind of internal world mirroring the external world. The phrase is reminiscent of Cooley’s (1902) term, “the looking-glass self,” which is ordinarily interpreted in a narrow sense, that is, as seeing oneself through the eyes of others. But Cooley seems to have intended the term to be more encompassing, that is, the self as constituting an internal reflection of the system of action that exists outside the person. In this view the self contains within it a reflection of all the actors in the system outside, along with their interests. The person’s action toward that outside system is an outcome of the balance of interests among the actors internalized from that system. (Coleman 1990: 525-26)

One way to explain the process of internalization and the structural component of personal values in the post-failure context is as a lag or ghosted effect. In the same way that images become burnt into old computer monitors, the looking-glass self may provide a cumulative sense of external expectations and motivations. Adding an affective component to the understanding of moral psychology (Haidt 2001) introduces the possibility that intuitions established through prior experience could perpetuate the satisfaction that a person finds in meeting the expectations of a disbanded reference group even when the person is cognitively aware of the irrelevance of the prior peer group’s perceptions.

The actual process through which occupational norms are retained, altered, discarded, and re-introduced remains somewhat mysterious, and while this dissertation provides some basic components of a larger theory, much more study is required.

Research on occupational norms tends to focus within an organization or an industry in a way that gathers little information on prior work contexts.

The methodology for identifying occupational norms is similar to the methodology for identifying routines. Study participants are asked to characterize the norms of the failing paper and then to compare and contrast these norms with the norms found within a current workplace. The advantage of this procedure is that it highlights salient features that matter to journalists and bankers. Assuming that conflict is part of what makes norms memorable, the interview-based process is slightly biased against norms that are routine and persistent from the failing firm to the post-failure work context. These normative routines are unlikely to create conflict and therefore less memorable than the norms that involve strife or disconnection between work contexts.

Like routines, norms can be difficult for an outsider to identify. And, as with routines, we aim to identify idiosyncratic and valued norms, not irrelevant norms that are typical of the industry and irrelevant to performance or personal experience. Fortunately, a very similar process can be used to untangle norms. By asking journalist and bankers to explain how they do the work that they do, one can elicit dense process descriptions that invoke the collaborative efforts of colleagues. When participants contrast these process descriptions with their work in other firms, they begin to identify divergent practices, some of which relate directly to different expectations. Having described this process, the normative conflict experienced in new firms is sometimes so obvious that very generic questions yield relevant details about norms and normative contrasts. For example, Nathan gives the example of the difference between managerial practice at Global

Investment, and Adant, the firm that acquired his division of Global. Though Adant merged some divisions of Global into its own operations, Nathan's division had no local equivalent, so it served as more of a targeted acquisition. Thus, from his perspective, "At least initially, what we were doing hadn't changed a whole lot. Who we were doing it with didn't change a whole lot, and the only thing[s] that really changed were our business cards and email addresses." But in the longer run, Nathan ran into the different norms of how to motivate employees between Global and Adant. Nathan worked in technology, and one of the perks that Global provided to technologists was giving employees time to experiment with the latest technology and to work on side projects.

Nathan: The morale of the teams is a topic of continuous conversation. The question of how to retain people despite flat markets, how to give people the promotions, the hot projects, how to motivate and retain them is definitely a topic of continuous discussion. There had been some discussions [of allowing employees to pursue side projects], but it seemed like a lot of that evaporated pretty quickly as it went up the chain. And not only was it a discussion of things like side projects, but even simple things, like the systems that we use to administer and record the performance appraisals. Some of these things were just so backwards, with forced curves and the language that they wanted to put in these things that those were demotivating factors for the teams, and often when we made some minor suggestions on how to evolve that process, even that didn't go over so well. Back in the Global days it was a five point scale, you know, one to five, and the majority of the performers got threes, three being, "meeting expectations," that was fine. I guess that people weren't thrilled about it, but they were OK with it. At Adant, they had it on a four point scale, "A" through "D," and the majority of the resources fell into the "C" camp by design with a forced distribution. And maybe they came up with the scale [somewhere else] because "A" through "D" and getting a "C" everybody equated with academia, and getting a "C" is not something that we're all very happy with. So, just putting it back on a five-point scale, or one to four, could have changed a lot of perceptions.

Adant's ongoing problems with employee retention are only partially explained by the cultural dissimilarities between Global and Adant, but Nathan's examples demonstrate that the priorities were not easily imposed within that organization. Yet the expectations,

motivations, and local norms within the project teams were stable throughout. So, while Adant did not absorb the norms of the employees that it acquired, it is also clear that these norms persisted throughout the acquisition and were eventually motivations for many team members to move to other organizations that would be more consistent with their expectations.

Most norms and routines are never described by participants in those terms. As such, it is important to note the distinguishing features that indicate each. Routines are most often described as the way that things are done, in the consistent and repetitive processes of the organization. Norms are distinguished by the existence of commonalities of behavior and preferences for these commonalities. Here I suggest three indicators ordered by certainty. The most certain indicator is conflict. When people fight, complain, or contest in order to maintain a behavioral expectation, this is a strong indication of a norm. When the former Global employees fought against the Adant evaluation system, they were policing a norm and seeking to impose it on a new organization. It is clear that the evaluation system at Global was routinized around a five-point scale, but if this routine were viewed as substitutable or arbitrary it would not have led to rancor. The conflict itself demonstrates the norm. The second best indicator of a norm is an assertion of universal preference. It is very common for employees to ascribe desires to groups or entities. For example, when journalists say, “We want to speak truth to power,” they are at once expressing a motivation and defining a group norm that corresponds to a sense of purpose. Of course, statements of group intention may not necessarily be enforced as norms, but they often are social expectations with consequences. The third indicator

overlaps entirely with the notion of a routine. At the most basic level, a norm is simply a behavioral regularity. However, if the behavioral regularity is sufficiently recurrent, and highly valued enough, then it is most likely that there is also a norm, either aspirational or obligatory, related to the behavior in question.

This section has identified norms and routines as key organizational concepts. Routines define the way that a firm works, and norms maintain firm behavior and encourage its adaptations by focusing participants on their wider social role. Though it is clear that a firm cannot be understood without reference to the specific individuals who inhabit it (Schneider 1987), a firm's norms and routines are at the very core of how those individuals behave and why they continue to do so. So, even if organizational failure spreads the individual inhabitants of an organization throughout an industry, it is appropriate to look to a firm's norms and routines as indicators of the continuity of its organizational life.

Qualitative Approach

A qualitative methodology like this one is not sufficient to demonstrate industry change over time, certainly not with the multi-decade timescale of some ecological studies. But it can provide cross-sectional evidence at one important moment in an industry's development. What the research design loses in quantitative proof, it gains in descriptive depth. Moreover, the transitions that lead individuals from one job to the next are surprisingly complex, and armchair theorizing was not likely to define appropriate categories for a quantitative study without first observing the diversity of experience through open response.

Because this study aims to develop a situated understanding of how individuals shape and form the firms and industries that they inhabit, direct descriptions provided by participants in their own words get as close as possible to the actual process and experience. Qualitative interviews permit direct documentation of perceived repetition or strategic re-engagement of organizational practices and capabilities in post-failure contexts. These observations are made at the individual level by individuals whose economic well-being depends upon their decisions to maintain or discard key organizational routines and norms. Just as travelers have a keen sense of difference while visiting other cultures, so do survivors of organizational failure have an immediate sense of what they have left behind and what they have brought along. This is one of the methodological contributions of the study to organizational research. Researchers have struggled to identify routines and prove them to be significant. The transition between firms makes it possible for the respondent to better observe the importance of routines that are different in each context, at least with respect to the respondent's own perceived effectiveness.

At the individual level, study participants can be distinguished based their post-failure engagement in work. Transition outcomes include jobs with similar work tasks, jobs with different work tasks, entrepreneurship, retirement, and unemployment. The primary outcome of interest is the extent to which displaced workers carry organizational routines and norms into new work contexts. Semi-structured interviews were selected as the data collection method because the heterogeneity of work tasks within different organizations does not permit question standardization and because the study is intended

to inductively learn what individuals carry out of failed firms, and what they lose in the course of failure. Interviews lasted between one and three hours, either in person or over the phone. The interviewee was asked to provide a career history. This most often elicited an uninterrupted narrative from college to present. Next, interviewees were asked to describe the work that they did at the failing firm, and their transition through the course of the failure. Participants were asked to compare their current work with the work that they did in the failing firm, with probes on expectations within the firm (norms) and on how others and the organization helped them to get their work done (routines).

Interviews were transcribed, or when recording was not allowed, notes were expanded. The raw interview data were imported into the qualitative research software Atlas.ti. The program was used to sort, track, code, and link interview responses.

All organization names have been changed, and all participants have been given pseudonyms. The reader may note the conflict inherent to such anonymization given the search for idiosyncratic norms and routines. Having set out to define what is most distinctive about a few firms in two relatively small industries, it is likely that my very success will undermine the anonymity provided by organizational pseudonyms. Where direct quotes may result in repercussions for individual study participants, these quotes have not been attributed to a pseudonym in order to offer further protection to participants. Appendix A provides a summary of all organizations identified in the study and their pseudonyms. Appendix B provides a summary of the work histories of all study participants and their organizational affiliations.

This chapter began by discussing the understanding of failure that is used within this research project. It is the death of a job that holds the study together. The chapter then documents the industry and sample selection strategies, and discusses some of the challenges and opportunities of researching these industries. Most of the chapter is dedicated to norms and routines as materially important and researchable concepts. The final section documented the interview process and qualitative research methodology relied upon in the third and fourth chapters, which begins with newspapers.

CHAPTER THREE:

POST-FAILURE CONTINUITY IN NEWSPAPERS

Introduction

This chapter describes the process of post-failure organizational continuity in newspapers. It explores patterns in the norms that are more and less likely to transfer, and in the relationship between these norms and the career decisions that individuals make. I distinguish between three types of norms: aesthetic, pragmatic, and justice norms. Aesthetic norms relate to matters of taste. Some of these norms are strongly felt, but most are flexible and will yield to the preferences of new stakeholders within a new organizational context. Pragmatic norms are norms that relate directly to performance of organizational goals. Survivors leave failed organizations with strong convictions about what works and what does not, and these convictions are imposed and shared as pragmatic norms. Pragmatic norms are both more and less flexible than aesthetic norms. These norms yield quickly when evidence is presented that the receiving context differs from the originating context and that the same norms are not appropriate or necessary, but they may also be firmly entrenched without such evidence. Justice norms are characteristically different in that they tend to be extremely inflexible. Justice norms relate to fundamental values and individual identities that, while formed throughout a career, are not immediately adaptable to a new organizational context. Regardless of the context, many journalists would have a very difficult time writing deceptive or untrue prose, or even writing something without the resources necessary to get the facts right.

Routines are distinguished based upon their volatility. In computer memory, the volatility relates to the amount of time that it takes for information to be lost. Like high-volatility memory, high-volatility routines are difficult to transfer from an organization because as soon as they are unplugged from the organizational structure they lose their structure and retention of process. In contrast, low-volatility routines are more “separable” (Teece, 1982), and they’re more easily transferred to other contexts. The introduction of the new concept is intended to focus explicitly on the importance of complexity, change, and dynamism in determining which routines are too fragile to transfer. Low-volatility routines are the organizational equivalent of riding a bike. Even long after long periods of disuse, low-volatility routines continue to be preserved as proto-routines for eventual re-deployment.

The final section outlines processes that facilitate or inhibit the transfers of routines and norms. The selection process occurs at two different levels. The first two sections define how norms and routines are selected from survivor backgrounds. The third section recognizes the antecedents to the organizational position necessary for survivors to make such a choice. Age discrimination, for instance, proves to be a major challenge for long-tenured employees whose work experience is viewed as a cost and liability rather than an asset. These barriers reduce the likelihood of transfer and demonstrate some of the most significant costs of organizational failure within newspapers.

The Failing News

In early 2008, the Afternoon Dispatch (named here with a pseudonym) published its final issue, ending a journalistic legacy that spanned more than eight decades. Forty-eight people were laid off and a city of more than 500,000 residents lost an important news source. At the time, the closure seemed to be an isolated incident, but papers would soon close across the United States and many more journalists would experience the death of their jobs.

We speak of dying industries and organizations, but we say that jobs are “lost,” as if they have been misplaced. It sounds strange to describe a job as “dead,” but for the dozens of people who worked at the Dispatch, it was a job that died: a geographically proximate source of income, an organizational role, a place within a community, and a stable normative environment. Though the Dispatch had limited resources, its employees praise the quality and priorities of the newsroom. They are proud of the paper that they produced together, and most have yet to find equally satisfactory employment.

Unfortunately, job satisfaction alone is not enough to keep a business alive. Businesses die for a variety of reasons. A business might starkly disappoint a key constituency or gradually cease to provide value to the customers, employees, and investors that once gave them cause to gather together. Practically speaking, most organizations die through the initiative of the owners, managers, or creditors. However, underperformance in other key relationships may also hasten a firm’s demise. In the case of the Dispatch, the firm’s failure was a strategic decision to cut costs made by a parent firm. In the process, the parent company lost a proven training ground for editors.

Dispatch employees had little agency over the survival of their paper, but considerable agency of their career decisions subsequent to the firm's failure. Journalists, like other members of the educated elite, tend to do work that is portable and adaptable to different organizational contexts. If they choose to search, journalists, photographers, and editors often find ways to continue doing similar work in a similar way after being laid off. Therefore, the fates of their news organizations are eventually decided through the careers of former employees, a determination that occurs long after the point at which the firm disbands. Organizational death disrupts the economic relations coordinated by the disbanded organization, but that disruption need not be permanent or complete. The firm's spirit may live on through its former employees' ongoing adherence to its norms and ongoing utilization of its routines.

The genealogical approach to organizational analysis (Phillips 2002) provides the most coherent theoretical perspective for the examination of post-failure continuity. Without an employee-centered conception of an organization's pedigree, we are left with a disconnected life cycle: firms emerge, grow, decline, and die without drawing resources from other entities or releasing resources back into the ecosystem once disbanded. In contrast, the genealogical perspective conceives of a firm as sharing in its employees' accumulated history and experience.

This chapter considers post-failure continuities in organizational norms and routines among newspaper journalists. It is appropriate that a close analysis of post-failure processes be undertaken within a sample of newspapers, a contemporary site of cataclysmic organizational failure and an industry that has provided data for some of the

classic studies of population ecology (Carroll and Huo 1986; Carroll and Hannan 1989; Delacroix and Carroll 1983).

Evolutionary economics posits that routines are destroyed by organizational death, but the interviews quoted below show four newspapers in which job deaths were incomplete. Routines and norms were transferred to new or established firms, sometimes into very different organizational contexts. The chapter considers individual agency and structural opportunity in the preservation of failed firms.

Method

Retrospective Interviews: Continuity in Careers and Firms

The analysis of norms and routines in newspapers is based on 40 qualitative semi-structured interviews with former employees from four newspapers. Table 1 describes the organizational sample.

Table 3: Newspapers Included in Analysis

Pseudonym	Disbanded	Bankrupt	Size	Non-financial performance
Regional Post	Yes	No	Medium	Stable, well-regarded
Afternoon Dispatch	Yes	No	Small	Gradual decline in resources
City National	No	Yes	Large	Senior layoffs, sharp decline
Local Blotter	No	Yes	Large	Stable, junior layoffs

Employees with various job functions, including assigning editors, copy editors, writers, photo editors, and photographers, were interviewed from each of these organizations. The papers differ in size, solvency, and relative decline. Two organizations were in bankruptcy at the time of their layoffs and have since recovered. Two had been disbanded altogether. All four firms are blighted by job death, and employees have been laid off and

bought out⁴ in waves. To learn whether norms and routines survive when jobs die, I located individuals who had left or been laid off from disbanded and bankrupted firms. Sampling began with organizational insiders identified through bylines in papers and stories on layoffs. Snowball sampling provided additional respondents, and final editions of newspapers and lists of people who had been laid off together provided relatively complete sampling frames.

I conducted semi-structured interviews between one and two years after layoffs occurred. Interviews focused on career histories beginning with entry into journalism, which often starts in high school or earlier, up through the present. I asked respondents to compare work tasks and experiences at the focal (failed or failing) organization with the work that they are currently doing. I asked what parts of the failed firm they had been able to preserve and what they had lost. Qualitative interviews were transcribed, and the names of all participants and their related papers were changed, though references to other periodicals cited by interviewees in the industry were left intact. Interviews were coded throughout the process so that new theories and ideas could be discussed in later interviews (Eisenhardt 1989). This stage of the research is meant to generate theory from cases, with the eventual goal of a survey-based instrument for further confirmation of findings.

The transfer phenomenon may generalize to other workforce reductions. Not all participants were laid off. Some employees left voluntarily and a few took buyouts. The lucky few whose timely departures avoided layoffs generally enjoyed a much smoother

⁴ A “buyout” is a strategy used by some organizations to reduce their payrolls. Buyouts are generally offered to senior employees to speed their way to retirement. Employees who “take a buyout” receive some extra compensation and reduced penalties for early retirement.

transition into subsequent employment, but other aspects of their narratives are broadly similar, including the tendency to preserve desirable aspects of the failing firm.

Newspapers as Structure and Process

This section provides a background introduction to newspapers and the organization of production within them. Three features are examined in detail. First, the public nature of the news product, which allows shared accountability and scrutiny beyond what is possible in most other production processes. Second, the publication process permits a relatively clear hierarchy so that superordinates can exercise significant control over the work products of their subordinates. Third, the news production process is recurrent. Though not all content is produced on a daily basis, the repetition in the news production process affords recurrent opportunities for feedback and learning. These three features are discussed in detail below. All observations, unless cited with external literature, draw upon the process descriptions of newspapers provided within qualitative interviews.

Journalism is often described as a calling, a trade with a higher purpose to which people are drawn as a form of service. This public-minded conception of journalism is famously expressed in the Hutchins report (Commission on Freedom of the Press 1947), which describes the “social responsibility” of the media⁵. Discussions of the ethics of journalism tend to focus on the wider social purpose, and that purpose is motivational to many of the actors who inhabit the modern newsroom. Their shared norms of what it means to be a good journalist are widely discussed and frequently codified. Most major

⁵ Though many believe that these values are universal, some have argued that a given theory of journalistic integrity depends significantly on the kind of democracy at which it aims (Baker 2002).

news organizations have ethics codes. Industry-wide codes, like the one promulgated by the Society of Professional Journalists (SPJ), are similarly common. The SPJ code has four key tenets, “Seek truth and report it[,], minimize harm[,], act independently[, and] be accountable” (Society of Professional Journalists 1996). These issues are subject to considerable discussion in newsrooms, as are subtler issues like covering the issues that matter and doing so in a way that deserves the interest of the reader. The norms of good journalism may also include the importance of balanced representations of politically charged issues, but the question of how such a norm is to be enacted is subject to considerable debate (Baker 2002). As one respondent explains:

Carl (laid off as a reporter for the National, hired by a school to write copy for its website): A lot of us came into the profession because we had a love or a passion for writing and seeking news and the truth. Nobody gets into this job to get rich, because it doesn't pay well. You're getting people who are working hard long hours, selflessly, not to make money. There's some kind of ideal we have in our mind. Investigative reporters are working because they want to expose things and help out and make our world a better place to live.

News production is public, hierarchical, and recurrent. Newspapers produce relatively strong normative environments that arise from specific aspects of production.

The first important characteristic of the newspaper as a normative environment is the public nature of its production. The published product creates a transparency for the output of the organization that is unique to news production. No other industry puts the entire organization's capacity on display on a daily basis in the way that the newspaper does. This creates numerous opportunities for social norms to be imposed between journalists and across desks. Positive and negative reinforcement passes through informal and formal social channels within the paper in real time. One might think that reader opinions would also matter, but newsrooms are remarkably insulated from their

readership and the newspaper business as a whole. Comments and page view counts for online publication are changing this insulation, but traditionally newspapers have had somewhat limited feedback from readers.

Mark (business reporter who left the Local Blotter voluntarily to protect someone else's job, wrote for another outlet, and came back after 2 years): This is a little bit of a strange industry... It is kind of like health care in that you have a disconnect between the people who are buying the product, the people who are selling the product, and the people who are producing the product. An engineer knows if his process works or it doesn't. A salesman knows if he's moving product or he isn't. But the reporter is really isolated most of the time from the business. You've got some people who sell advertising and some people who sell subscriptions, then you've got these other folks laboring away writing for a public that they may or may not hear from. And, there is really no scientific way, in most cases, to know who you're reaching and whether they like your product or not. So, if you can just imagine all of the steps between the users and the producers of the product it is really a great deal of stuffing and insulation.

A newspaper's staff is often in a better position to judge the quality of its news than the newspaper's readers. The news that did not make the paper may be known only to employees, since only the finished product is observable by readers. The process through which the organization selects news, develops the news as a narrative and visual product, aggregates stories, lays them out, and presents them for sale is as focused on deciding what should not be published as it is focused on what should be published.

The second characteristic of newspapers that arises from the production process is a relatively strict hierarchy. The printed word permits a clear chain of command that determines who is permitted to revise whom. The hierarchy is not exactly linear. Copy editors, for instance, are not simply superordinate to assigning editors; their role specifies the sorts of changes that are appropriately made and those that would require the editor to "report" the story. However, from the perspective of the reporter, the hierarchy is sharply defined. It is the editors who decide which stories the reporters will be permitted to

pursue and it is the editors who decide how those stories will be presented and in what voice. The editors can change a story or withhold it entirely as they choose. The editors can also remove pieces of the narrative that are, from the journalist's perspective, absolutely necessary for the reader to understand the rest of the story.

The third relevant characteristic of newspapers as a normative environment is the recurrence of publication. Recurrence provides regular opportunity for learning and growth. Because newspapers do the same things day after day, their routines and norms have a regularity that exceeds many other production processes⁶. Recurrence also increases the importance of deadlines. Deadlines are deeply ingrained in the production process of the printed paper. Consider the many necessary steps involved in a paper arriving at the newsstand:

1. Story ideas are selected from the many possible topics. News begins with a filtration and curation process that prioritizes some projects, stories, and issues over others. Even before this occurs, a list of ideas is gathered from staff reporters, freelancers, editors, and others. Many news organizations welcome ideas from everyone. The question of what news "is" is a vibrant source of contention, not just in the abstract, but also an enacted reality.
2. Once the priorities are set, the editors assign stories to writers. Depending on the assigning editor's expertise on the topic, the writer's relationship with the editor, the writer's experience, and the editor's approach, a story idea may be relatively

⁶ Though news production is recurrent, it is not necessarily repetitive. On any given day a journalist may be learning about something that is completely different from what she covered the day before. But the way in which she pursues this learning is likely to be consistent as she recurrently utilizes the same strategy to quickly learn, document, summarize, and explain.

vague and open ended or extremely specific and circumscribed. Story ideas are particularly specific when papers are managing coverage by multiple writers on different parts of a larger story.

3. Next the reporters do their work: collecting information, asking questions, getting quotes, and eventually writing a story. Different people have different levels of expertise on this process. There is a particularly important contrast between “writers” and “reporters,” though the same person almost always plays both roles. Great reporters have the background knowledge, skills, and relationships necessary to quickly find information. Great writers can distill a story from the information that requires little editing, reads well, presents the facts in a straightforward manner, and develops a narrative that draws the reader in and keeps his or her attention.
4. Stories enter into the organization through assigning editors, who are the first to revise them. Assigning editors may ask a writer to get more information, to cut out a part of the story, or to alter a part of the presentation. Assigning editors have some responsibility for the factual accuracy of the story, and they might check with the reporter if they doubt something. Depending on the story, the possibility for controversy, and other factors, it may cycle between steps 3 and 4 multiple times before moving on in the process.
5. In most papers, the story moves next to the copy editors. Copy editors are most often experienced journalists who are responsible for checking the story for grammatical, factual, and stylistic errors. Depending on the paper, a copy desk

may check facts, or at least quotes, but some of this happens with the assigning editor as well. Sometimes multiple copy editors will edit the same story, and the slot editor (the person who assigns stories to copy editors) may edit it as well.

6. From here, the process varies between organizations. In heavily edited papers, a story might be edited and reviewed further or might already have been reviewed by others. As a rule, better papers involve more layers of editing, but there is a point of diminishing returns, and many journalists believe their newspapers to be “over-edited.”
7. Most papers have automated page-flow, but design editors continue to play an important role in laying out the headlines, stories, graphics, and images on a page. This is a technologically dependent process, and papers make tradeoffs between getting the layout perfect and getting the layout done quickly and cheaply.
8. Once the page design is finished, the page moves to the production side. For most journalists, the remaining production process is entirely opaque to them: it occurs in factories that are located far from newsrooms, sometimes in facilities that are shared with competitor papers.
9. The printed papers are delivered to newsstands, to boxes, and to subscribers. The entire process from story idea to publications runs on a clock. For daily newspapers, steps 1 and 2 occur in the morning, steps 3 and 4 in the early afternoon, steps 5, 6 and 7 run late into the evening, and steps 8 and 9 starts in the very early morning before most people are awake and headed to work.

Some weekly sections involve more planning for longer cycles, and some investigative reporting pieces take months to develop, but a sizeable portion of the copy that an organization generates is provided as needed with a quick turn-around. Not all content in a paper comes from journalists employed by the organization or is produced fresh on a daily basis. Pictures may come from organizational photographers or from stock photo services, advertisements are sold in advance and printed alongside news content, freelancers contribute content to augment news staff, and news wire services may provide coverage on stories that are beyond the paper's news collection capacity. There are numerous variants on this basic structure. For instance, some news organizations treat photographers as journalists and involve them actively in the process of story generation and coverage selection, while others treat photography as a final task that derives its value from the reporting already done by the "word people."

There are always pages to fill. The linear process relates to a similarly linear and hierarchical authority structure, a structure that is often sharply defined. In a newspaper the hierarchy establishes whose revisions rule, and the process and timing reinforces it. Copy editors, whose shifts may run from 3 PM until 11 PM, are in a natural position to make final decisions on published content. However, their revisions are bounded by what they can justify given the story that they are provided. They have neither the time nor the resources to report stories, and are therefore limited in the scope of the revisions that they can make. So, while copy editors do have opportunities to make changes late in the process, the scope of such changes is limited due to practical considerations. Assigning editors, however, have the power to redeploy the journalist and to change the way the

story gets reported. So, while assigning editors may not be the most powerful people in the organization, they have tremendous power over the reporters, their writing, and their stories. But with this power comes the assigning editors' responsibility and accountability for the stories that their writers contribute.

A chain of command is not unique to the newspaper, but the established process of contestation does make this chain distinctive. Writers fight to get their words into the paper in the way that they choose and editors second-guess the work that writers have done. If the authority structure allows it, some editors will also challenge the work of other editors. Though editing involves stylistic considerations and value judgments, the strong norms of newspapers make certain claims more dominant than others. The normative errors (Bosk 1979) of the newsroom concern factual inaccuracy and fabrication of quotes. Though perhaps not normative, one possible addition to the list is the production of boring content. A story that is not worth reading is a mistake regardless of the facts that it presents. Likewise, a failure to publish the important news of the day in favor of reporting "fluff pieces" that do not provide worthwhile information is a serious complaint, but all journalists know to expect this sort of news in the article mix.

Newspapers are experience-sensitive organizations. The identification of expertise is one of the special skills of journalists, and they demonstrate a remarkable awareness for the occupational histories of their peers. Journalists rely on their peers' backgrounds as an accessible source of expertise, and functional news organizations promote the social connections and interpersonal norms necessary to make this knowledge available⁷.

⁷ For example, one sports writer inquired about my high school, guessed my age, and listed some of the athletes who graduated with me over ten years earlier, almost without pause. Interestingly,

The process described thus far is broadly representative of daily papers published in the United States. There have been tremendous changes in the printing process, in the photographic process, and in the use of computers across news organizations, but some of the most profound changes in news production are currently underway. The analysis concerns the newspaper as it has been, rather than as it will be. The regularity of newspaper deadlines is under threat from instant online publication. Online news brings together a mixture of traditional media organizations (radio, television, and print), web-only outlets, and citizen journalists. The medium places little emphasis on page layout other than the initial process of page design. It forgoes a daily deadline for an instant push to be the first online and thus the first gaining status in web search indexes. The editorial function that seeks to sell papers with stories and draw interest with headlines is threatened by a new set of norms that counts readers on every story with page views and seeks search result optimization in the selection of headlines. The new regime makes interaction with readers, at least the most vociferous of among them, a likely possibility, and some writers become increasingly comfortable with reader comments providing input and fact-checking support.

These changes in process have profound implications for the organization of news and news production. However, what is clear from the interviews described here is that news organizations have yet to establish stable norms regarding an alternative process. This includes work-limiting rules to regulate the required output through online publications and boundaries between economic and editorial influences, key institutions

one of his colleagues had acknowledged his encyclopedic knowledge of preps in an earlier interview, demonstrating the peer recognition of knowledge embedded in colleague expertise.

in the traditional media organization. The changing organization and normative environment of news presents a particularly vibrant setting for the study of news, particularly newspapers. It seems clear that some individuals will be paid to report and write news content, others to record photojournalistic images to display alongside this content, and still others to curate the content provided by both groups. However, it is anyone's guess as to how this news will be provided and presented, and how the organizations that produce and distribute it will be constituted. The argument of this chapter is that whatever happens, the norms of traditional journalism will continue to reassert themselves through those who have worked in papers, even if those papers have been destroyed in the transition.

The Norms That Persist: Aesthetic, Pragmatic, and Justice-Oriented

Persistent norms fall into three categories: aesthetic, pragmatic, and justice-oriented. These categories relate to the relative intensity of the motivations for the preservations of the norms. Aesthetic norms originate in relatively idiosyncratic preferences that are understood to differ between people, organizations, and audiences. Pragmatic norms originate in the beliefs about what works, a category that overlaps with aesthetic norms. These beliefs are only updated when there is evidence that something does not work, a process that is sometimes initiated by organizational failure. Justice-oriented norms tend to be the least negotiable of all. These fundamental values relate to conceptions of fairness, justice, and core perspectives on what is worth valuing. Justice norms may persist regardless of whether practice shows them to be expedient.

Aesthetic Norms

Aesthetic norms are understood to be idiosyncratic, personal, culturally constrained, and distinct to an audience. Aesthetics relate directly to “what people like,” and thereby define subjective qualities of work product that may be customized depending on the work context. In a newspaper, the most general aesthetic has to do with the paper’s “style.”

Personality. Though not all readers are able to detect the distinctiveness of the papers that they read, newspapers have an organization-specific style. This way of presenting information is infused into many parts of the layout, photography, and writing.

One study participant describes the style at the Regional Post:

Rachel (copy editor at the Regional Post, entrepreneur in one post-failure project, then graduate school in education): Well you know, at the Regional Post we sort of adopted a certain personality, and I think that if you look at any newspaper, or any publication, there is a certain personality, a certain style of writing, a certain style of photography, aside from the opinion pages.... [our readers were] blue collar, middle class, lower middle class kind of folks. They read the Regional Post because they felt like it was their friend. That we were telling stories about their neighbors, and we were telling stories about their communities, and things that affected their communities... When we went out and took pictures [w]e focused a lot on faces, and people in general. What our editor was really interested in was digging behind the event and finding out how people felt, and what they were going to do now, and how this affected our readers, and why our readers should care. We wrote that way, and we edited that way, and we took pictures that way.

Sarah (copy editor at the Regional Post, entrepreneur in two failed post-failure projects, then freelancer): We were definitely the scrappier paper, more the blue-collar vibe.... We wanted to highlight people, tell the stories of people, while still talking about the news of the day. If there was a way to get a personal angle in there, then that was ideal. Photos were a big thing with us.... We were more visual.

These attributes live on in their post-failure projects and in their strategies. This is an aesthetic matter of presentation, and also a strategy for identifying with the failed firm.

Journalists know that they lost many readers when they lost their paper, and the entrepreneurs among them want to provide something that the previous readers will recognize as connecting with what is lost. The aesthetic carries into the post-failure projects. For instance, in how the post-failure project evaluated newsworthy content:

Sarah: I judge it by what's relevant to people's lives. Does it tell a good story? If it's a narrative piece, is it well-written? Is it useful? Is it something you wouldn't necessarily have thought about but then when you read it you think, 'Wait a second, that does impact my life.'? I never would have thought such-and-such legislators' little battle has any impact on me, but it turns out it snowballs into this big thing, and it eventually impacts who runs for office. [At the Regional Post] we were there because the community needed us, and we had established a trusting relationship between us and community... we were responsible for sharing these stories, not just for day-to-day informational value, but also for historical value, too. [In the post-failure project] were we able to continue it? To an extent....So, yes and no. Yes, we made a good try at trying to continue on in the spirit of the Regional Post, and now I think we fell short.

Resource constraints and other factors got in the way of the full realization of the aesthetic that the Regional Post employees could preserve, but the spirit of the writing, photography, and design was oriented toward the same model. So far, these post-failure projects have failed, but the third such project is underway and time will tell whether it is able to preserve the spirit of the Regional Post.

Irony. Some aesthetics penetrate into the organization's treatment of news and images in a very general way. For instance, reporters and photographers at the National noted the paper's appetite for irony, brevity, and context.

Brian (reporter at the National, now writing novels): I learned to write a much tighter style of lead... not even necessarily an inverted pyramid but sort of a snappy lead-I've always called it the false irony lead that the National is always so fond of, it's like "Joe Blow may look like an idiot, but guess what, he's just won the Nobel Prize!" ... The National likes those kinds of things.

Ken (National editor, then post-failure project putting together content for another paper): We believe in tighter, more emotional images and they [the other local

paper] believe in tighter scene setters. They believe in setting a scene for everything, and we believe in true visual impact... That has always been the view at the National... They're not doing it the way that we would understand our city media to do it. It doesn't mean that they're doing a bad job, though in some cases we believe that because they don't do what we would do.

Henry (National photographer, then post-failure project with Ken): So, take a look at this. [Henry displays a photograph of a man sitting in a chair, sprawled back in a relaxed position] Here is a story about a union that has political clout and that is the head of the union, and there is a couple of interesting things about that photograph, I think. When compared to my preconception about union clout. One is that it is in a high rise, it looks like it has great views and it looks like a very successful corporate suite. And that guy looks pretty doggone prosperous. Right? So, as you can see when we posted that on our website, that is our lead photograph. Right, that is the picture that we liked. OK, so remember that one. Now Ken has been talking about photographs that set a scene. So they ran something like this. [Henry displays an image where the camera is shot from a low angle of a silhouette of the same man sitting up in his chair; this one has little context, and the main element is the chair] So to me, I think that is a picture of a chair that belongs in a furniture catalogue. It adds ambiance to the environment I guess, but I've lost some of the polish of the place and the comfort of the guy.

Ken and Henry demonstrate their attraction to visual contrast (“false irony”) that parallels the leads that Brian describes. More directly, they illustrate the specifics of an aesthetic that they are attempting to maintain in a very different organization. Unfortunately for them, like many other post-failure transitions, the aesthetic must be merged with other sensibilities in the new organizational context. Ken and Henry control which photograph goes on the website, so there they use the one that would have been published in the City National, but the paper that buys content from their entrepreneurial firm chooses a different image, one that violates their aesthetic sensibilities. As Ken said, “It doesn't mean that they're doing a bad job, though in some cases we believe that because they don't do what we would do.”

Aesthetic norms seem to fall into a negotiable range of interpersonal conflict. Ken and Henry would like to have their way, but the conflict over the photo happens in

passing. They don't change their view about which photo is better, or about what their audience wants, but they do come to better understand the aesthetic choices of the people with whom they work.

Fit. The fit between content and audience is a key component of aesthetic norms, and one of the reasons why journalists are willing to adapt to new organizations. The adaptation is not mere managerial caprice; it is often custom-fit to a particular audience and that audience's preferences. A part of the journalist's trade expertise is writing appropriately for an audience, and most journalists explain aesthetics in terms of a media outlet's audience.

Mark: Yeah, [the firm that hired me] is very by-the-book. They started out with a bunch of young kids that maybe hadn't done this before. And so, they really reduced everything to a formula, and now that they don't need to do that anymore they've held onto that formula pretty much, and what it does is that it brings you right to the story. Here is what happened. Here is who it happened with. I mean, it is just really basic block and tackle, and everything else goes off of there. They can take it in different directions down below, but the top of the story needs to be really focused... At its best, it is a very straightforward way of approaching the story. It is very difficult for a person who is marinated in that to then read the New York Times with enjoyment because the stories seem like they're written backwards and sideways. They incorporate an awful lot of information that is not really that important, and [they] read sloppy. And you kind of feel like sometimes you're digging through them for important information... with the Times, the facts will be there, but they may be wrapped and buried in material that really feels extraneous and personal to the writer. There is more poetry there, and that is not always a good thing. [Stories at the firm that hired me] really are written for their audience.... And that was a huge lesson when I realized that situation.

Sometimes an aesthetic norm becomes a specialized asset when carried outside of its organizational context. Fit continues to be important, but what began as a standard approach within an organization becomes a unique approach in another context.

Rick (photographer at the Dispatch, laid off, then freelance): I started at the Dispatch as an unpaid intern for the summer to get college credit. I was a really bad photographer. I hadn't been exposed to everyday conversations and the

diversity of knowledge. I learned so much about good photography and good photojournalism. There are markets for those skills outside of papers, especially in wedding photography. That style of photography, especially when the newspaper industry collapsed, happened to be very in at the time [in wedding photography]: documentary vs. static and posed stuff. That was sort of a blessing for some of us. I do wonder whether that was in style because it was available... I do a little bit of posed shooting for the income, but the main thing for me is to help people to understand that I am different and that makes me different in the way that I'm going to shoot. This is the way that I know how to do it, and it is the way that I relay things visually. As long as they understand that, then we get along great, but if they're thinking that it is going to be me saying, 'Stand up straight, chin up, re-enact the ceremony, now kiss her,' that just isn't me. I'm not a director; I am a react-as-it-happens kind of photographer.

The example illustrates the complex overlap between norms, skills, and routines. Non-posed photography was the norm at the Dispatch. Posed photography was the norm for wedding photography. The static, posed images of wedding photography weren't going to get into the paper, much less get a job for an intern. Rick learned photojournalism, which involves a set of routines for how photographers interact with subjects and excludes a set of routines shared by traditional wedding photographers. So, while I describe it as an aesthetic norm, it is more than a set of preferences. Rick's ability to take pictures as a photojournalist leads him to take them that way, but his aesthetic preference for that kind of photography, for its dynamism, also leads him to value that work more highly. Fortunately for Rick, the aesthetic for wedding photography was changing at the same time and opening up to the norms and routines that Rick learned through photojournalism. The Wedding Photojournalist Association, formed in 2002, is a testament to (and force within) this emergent market. As of 2011, the WPJA photography contests were receiving more than 20,000 entries.

Authorship. As much priority as journalists may place on their craft and its principles of communication, most are also willing to revise their views if provided with

evidence to the contrary. One example of this is the question of whether journalism should center on recognized names in journalism and specific authorial credits. Many journalists aspire to “have a name,” to gain enough notoriety that their paper would have to afford them a modicum of respect. But, they also watch the industry to see how that will change, whether the assumption is correct:

Trent (new media for the Dispatch, then laid off, hired by an international paper in Asia, then laid off again, then hired by a top American paper): Look at the Economist, which is basically analysis news. They produce news that is about as straight as it gets, and they seem to be doing great. They don't even have bylines. They say that everything is headed for personality journalism, but I'm not sure where the Economist fits into that trajectory.

Trent demonstrates a critical reflection on one of the basic understandings of the American news establishment: that authors matter to readers. Seeing a person's name on the byline is at the heart of the pride and ownership of the news; it is part of the basic accountability structure. However, Trent demonstrates his own critical reflection on the authorial norm and its meaning. As he considers his own career as a journalist, he aspires to a position of expertise, but also wonders if this will provide him with the security that he hopes it will. After two layoffs in two years, Trent is motivated to find a less precarious position, but his environment provides him with little certainty on how to find such a position.

Aesthetics of news are likely to continue changing, but many of these orientations have been standard tropes in news for a very long time. Some papers use a dry, analytic tone. Other outlets seek to engage more personally with the news. While it is possible for writers to adapt between styles in the news, the switch is not always easy.

Not all organizations manage to impose an aesthetic upon individual workers. Instead, the organization might merely filter the person's work product without successfully changing the way that they believe the work ought to be done. In this case, the individual's production is likely to spring back after being displaced from work as the former employee seeks to reject the firm's aesthetic and re-establish her own. Two of the journalists who I interviewed had been hired with very strong writing credentials into the City National, and both faced unpleasant resistance to their writing and story ideas. This tension between person and organization was released when the City National laid them off, and both found the experience of being laid off to be liberating.

Pragmatic Norms

Many aesthetic norms overlap with the second category, pragmatic norms. Pragmatic norms are most often identifiable by the tight coupling between the norm and the objective of the norm. As such, the value of a pragmatic norm is determined by the empirical test of whether the norm accomplishes its goal.

Meetings. One example of a pragmatic norm is the cadence of meetings. Meetings are a necessity of organizational life, but if meetings stretch on, they take away from the productive time that people need to accomplish the objectives that they establish. Helen describes the cadence of meetings as a challenging part of her transition from a newspaper job to a role in nonprofit leadership:

Helen: At first I couldn't stand all the meetings and I would come home really late and have to do the work that would come out of all these meetings and go to another meeting or conference call and then drive to the airport to go to another meeting and it was crazy. I demanded to know what time and what part of a meeting I had to go to and tried to do that to stay sane. They didn't appreciate me at first, being like that, but I didn't appreciate them! I was like "how can you get

anything done?” Just in meetings all the time? It was incredible. And I remembered hearing about how Colin Powell had 15-minute meetings and I thought “if he can do it and run the military, we can do it in less than 2.5 hours.” That was culturally very challenging and hard, and setting a schedule was a challenge.

Interviewer: Have you been successful in changing and imposing the norms on the way you did meetings on the people you work with?

Helen: Oh yeah.

Interviewer: How has it changed?

Helen: Well it used to be Mondays that everyone knew the whole day was going to be full of meetings. It was crazy. I had no idea what was going on for the first month. Now they just don't invite me to them. So now I have almost gone 360 like, hey occasionally, once a month so I can find out what's going on!

Helen describes the nonprofit where she works as an organization that has outgrown its routines. It has the close social structure of a very small organization, even though it has grown too large to maintain the interpersonal focus in meetings. She says that it has been difficult for the organization to move to the next step and that this was part of what she was hired to facilitate. The culture of meetings, talking about kids, and gossiping has proven to be a major cultural norm. It is clear that she has managed to modify the norm enough to make room for herself as an exception. Her position of authority in the organization may partially justify this. But she seems to also be changing the norms in the meetings, focusing people more on time and productivity. Her inspiration in this goal traces back to the role that meetings play in newspapers.

In newspapers, meetings precede action that is most often governed by a deadline. Newspapers inspire a very significant emphasis on time. The emphasis derives from the deadlines that define the organization's production cycle and from the impatience of sources who are very often rushed in providing quotes. Other organizations are more relaxed, but this does not mean that those organizations can expect to hire people from newspapers without dealing with the level of energy and productivity that they are used

to maintaining. Instead, the intensity of the news carries through individual careers into new jobs where the same strategies are viewed as effective.

Enterprise journalism. Some pragmatic norms form linkages between individual perceptions of what is worthwhile about the work that they do and market strategies. This may relate to perceived demand, competition, and relative market position, and sometimes make direct reference to the gap left by a failed or failing firm:

Scott (business reporter at the National, voluntarily left to work on an entrepreneurial project): We don't spend a lot of time covering the mayor's press conferences. Yeah we'll go, but we're not going to just transcribe, and we're not going to do spot news. [Reporter] is going to say, "We ought to look into the city's [dumpster permits,]" and as a result of several weeks of work gets a copy of the contract to lease the [dumpsters] or board minutes of the [dumpster] company and finds out they're making 80% profit. Notices in the minutes the names of some of the board members aren't recognizable, and finds out that the sovereign wealth fund of the UAE is a major owner of the city [dumpsters] right now. That's enterprise reporting.... Nobody knows it's a story until you figure it out, and then everybody knows it's a story because they read it and go, holy shit. Kind of looking at the world in a way that no one has ever done before and bringing them stories that really effect their daily lives and inform them about the society that they live in.

The City National laid off some of its most talented and senior staff, an exceptional act in a heavily unionized industry that tends to go by "last in, first out." Shortly after the layoffs, Scott left. Scott's departure from the National was news in itself. He was one of the big-name journalists whose organizational status provided him with the clout that others sought (he was in the position that Trent longed for). But he decided to leave in order to help launch an organization formed almost entirely by people who were laid off or bought out by the National. Though the City National survived, its strategy was significantly changed. It sought a market oriented, highly localized news emphasis. The tone of the news changed as the paper sought to appeal to a younger audience. So, Scott

and his colleagues provide a curious case: there is a sense in which they were trying to carry on the tradition of the “old” City National, a paper that had since changed so drastically that it no longer pursued the news as they thought a paper should. The National had once earned a fairly good industry reputation, but the new management had a very different vision in mind. First the foreign bureaus were closed, then the national bureaus. When Scott describes enterprise journalism, he is describing the best of the National, a kind of journalism that the failing, anemic form of a declining paper tends not to produce. So, Scott and his colleagues at City News are trying to create an organization that can restore the norms of news production that they believe are most worthwhile:

Scott: I’m okay with being a throwback to quality, substantive journalism. If that makes me a dinosaur. I think there’s a need for that, and I think there’s a market for that. And I think that the market is big enough that the National can do what its doing and we can do what we’re doing, and we can both be very happy and successful.

The dumpster sleuth whom Scott mentioned also left voluntarily to join the entrepreneurial venture, choosing to forgo a very promising career at the National for a riskier entrepreneurial place that fit more closely with his values and aspirations. The pragmatic norms relate, in this case, to producing news that is valuable, and to the question of what news will be valued by the market.

Relationships. Some of the pragmatic norms of journalism relate to the specific tasks involved in being a reporter, many of which include relating to people in a way that is unusual. Journalists must build trust with people, and then get them to expose sensitive facts to the public. Lisa and Carl describe the strategies that they’ve developed to get the work done. These strategies are specific to the kind of writing they do. Carl worked with athletes and coaches with whom he had to maintain relationships, and so his conduct

involved a number of serious considerations of how those relationships should work.

Lisa's relationships were more temporary and, like the norms, varied accordingly.

Lisa (Laid off from the National, wrote for public center agency, rehired by a newspaper): As a young reporter, if I asked someone a question, and they kind of went off topic, I would feel bad about interrupting them to keep them on point. So I kind of let them meander for a little while before I interrupted them. Like, "Oh, actually, I need to talk about this." So you end up wasting a lot of time. And so, one of the things I observed from one of the reporters I was - hired by [At City National], actually - was just her totally - I always hold my thoughts on this, but - really aggressively taking control of the conversation, to a point that I was like, "Wow, I would not say that to a source, but okay!" It was very worthwhile, because, even though I would never be exactly like she was, the principle of keeping someone on point is something I learned.

Interviewer: As you describe your practice of sports journalism, it's about maintaining relationships...

Carl: [It is] a little more humanistic. There have been times when I have to balance it. I have a job to do and get information out. There have been times when I had to make a choice. The information had to get out and but it was going to make someone look bad. The person gets upset, but you go for the greater good. If this information would save someone else from the same bad situation, you go with that.

Both Lisa and Carl continue to use these norms in their work on an ongoing basis. Lisa wrote profiles for the staff of a public agency to show the work that it was doing and the histories of the people who worked there. She said that one of her skills was getting to the story in a way that her coworkers could not do. Carl's skill as a writer was matched by his ability to maintain relationships, an ability that is highly prized by a university that is using its writing staff as a hybrid between news and PR functions.

Effort. Another norm that seems to be pragmatically decided in the wake of organizational failure is the question of how much work to do on a story assignment. Some of the classic debates in the sociology of work concern how managers motivate workers to maintain production, and how workers create their own interpersonal norms

that regulate output, norms that can then be gamed by management (Burawoy 1979). In the spirit of pragmatism, many journalists customize their effort according to the outlet. Alexis was laid off three years earlier by the Local Blotter. She describes herself as a “dead kid in the street reporter.” She has covered wars and disasters before being laid off and since. But as a freelancer, she does a lot of mundane writing. She helped write someone else’s autobiography (with co-authorial credit), she wrote content for a major food corporation (without authorial credit), and she continues to contribute to newspapers, including the paper that laid her off. For her, the outlet and the use determine the level of effort that will be applied to the task.

Alexis: When I do stuff for American Journalism Review it takes the longest because I have to get so many sources and I know it's being carefully read by everyone in my industry. [But when writing for other outlets] I... still try to make it good. Even when I'm writing a website about something I don't really understand, like a website about machines, I'm like, let me try to make this as interesting as possible. I mean, part of it's just to amuse myself, and I'll be happy with a weird turn of phrase referring to rivets. And I'll be like, “Oh good! No one else in the world will appreciate that, but I'll know.” So writing is a very selfish thing for me. I really like doing it, I like playing with words, doing things, so that makes me happy. Like writing this guy's book just cracks me up, I'm like, “Wow, you sound just like me.” (laughs).

The routine process of writing, of playing with words, allows Alexis to sometimes lose track of the relatively mundane task at hand. This is motivationally important, and consistent with the effortless nature of an engaging production process. However, the work’s wider social value eventually reminds her of what she has lost, and this is a major motivational challenge in the post-failure context

Alexis: It's still ongoing, it's 3 years later. I used to feel like I was writing things that were important in some way, that made a difference, and now I basically just write things that are fun or easy. And I wish I could appreciate that more. Other people will say “Oh, you got to do this and write about this as a freelancer?” [normally freelancers don’t get to do very interesting projects, Alexis is an

exception] and I'm like, "Yeah, who cares?" I'm more of the 'dead kid in the street' reporter, and it's been hard, I mean my husband will tell you he sees a pattern, it's like every 3 months I'll get really upset about it, and be like, 'Why am I doing this? It's a waste of time.' So I wish I was the type of person who'd be happy just working at Target, you know what I mean? Make my shelves.

Interviewer: Are there things that you wouldn't write... is there an organization you wouldn't work for, a job you wouldn't take?

Alexis: I'm not going to take something that's totally against my political feelings, but I can't think of anything else. And you know what it also depends on? My name [being] on it. I don't mind writing these websites because my name doesn't appear on them. I don't want to be known as the "machinery website writer."

So, while the day-to-day practice of Alexis' work is reasonably satisfying to her, its larger consequences and purpose fail to connect with the sense of purpose that she found in her work as a journalist within a paper. Effort is thus a pragmatic norm: Alexis determines how much effort to put into a project based upon the value that she (and others) will derive from additional effort. The calculus is one that she learned as a newspaper journalist, and she feels frustrated by the projects where her value contribution is exclusively paying her own bills and not helping others.

Justice-Oriented Norms

The norms that I have outlined so far are negotiable, and they tend to be revised as different situations and contexts alter the rationale behind them. In contrast, justice norms like Alexis is struggling with are not easily passed over. Unlike the other norms, justice norms seem to be extremely durable in the post-failure experience of journalists.

The most durable of these goals relate to the objectives that work seeks to accomplish. In this section I focus on the justice orientation of journalistic norms, orientations that define what work is worth doing and how it ought to be done. Sarah and Gertrude explain:

Sarah: As journalists we tend to have very lofty goals for what our role in society should be, as a watchdog and to further the cause of democracy and those kinds of things. That's how we see ourselves in relation to the community.

Gertrude (Photographer and editor, laid off by the Regional Post and hired by another paper locally): For me, photojournalism is not a profession. There's a lot of people who look at it like that, but it's a calling. A reason.

Both Sarah and Gertrude find a sense of purpose in journalism. There are many ways to describe the interpersonal norms and values that they share. These are professional ethics reinforced by schooling, industry standards, codes of conduct, scandals, exit, voice, and loyalty. They are also personal systems of value that are reinforced by the lived experiences that provide intrinsic motivations to journalists. Much of this is internal to the news process, as public journalism can be empowering when it allows a writer to serve the interests of others:

Lisa: I guess the impact of journalism, everyone will say the same two words: educate and inform. And so, basically, you want to enlighten people. This is what I feel like I'm doing: I'm holding up a mirror to you, society, and I'm telling you, "This is what you look like. I'm not making judgments on it. I'm not telling you to be better or worse. I'm showing you what you look like. And I'm hoping that you take the baton from there, that you make a change based on what I'm showing you. And I want to show it accurately and fairly, and a good, vivid picture of reality." I'm not an actor as a journalist. I'm simply an observer. It's up to other people to actually do stuff.... Especially when I was on the border, there were many instances where I would write something about somebody and things would change. I wrote about a family of three or four who lived in a *colonia* on the outskirts of town in a school bus, that they'd pulled the chairs out of, and they were living in it. I wrote about the family, and next week, the family's got floor-to-ceiling, clothes for the kids, that, actually, somebody donated a modular home....And that is probably one of a hundred stories I can tell you like that. And any good reporter has a hundred stories like that. So I absolutely believe it makes the world a better place.

Lisa's experience was echoed by almost every journalist with whom I spoke, each of whom had some memory of a time when they made a difference in someone's life. The experiences are all of the more powerful because journalists have so little contact from

their readers relative to the breadth of distribution of their writing. The production of necessary action from news publication serves as proof that news mobilizes people to redress injustices. In my interviews I heard stories about holocaust museums that had burned, about social issues that were unknown to the public before these individual persons made them issues with press. The justice motives drive journalists to be involved.

As Jeff explains:

Jeff (wrote for the Regional Post, now he freelances and has published a nonfiction book): [After being laid off] I retained my love for journalism and my love for photography and telling stories became even greater. I did a lot of soul searching when the paper closed. I realized why I wanted to do this in the first place and it was reaffirmed in a lot of ways. I retained my deep desire to keep doing this.

Some of the justice norms are also pragmatic. For instance, one journalist moved to a small town to run a local paper. The paper's prior owner had worked for City Hall, and had exercised editorial policy that was deferential to one side of the local political debate over the other. The new owner, a seasoned journalist, immediately began to demonstrate to the community that his paper would be without bias in its presentation of the facts. For him, it wasn't a sense of justice that motivated this particular strategy as much as it was "just good business." Jason, the paper's owner, can't imagine writing any other way, but no high moral values are necessary to justify the choice of style.

Internalization

One question, in this context, is whether norms are internalized or whether they continue to be social norms, in the sense that they are embedded within groups of people. Both seem to be the case. To some extent, journalists develop as individuals across the length of their careers. Gertrude describes the development in political terms:

Gertrude: I think that pretty much every journalist I know is extremely liberal because of the atrocities that we have witnessed. There's a certain amount of evolution that happens when you witness corruption and the unfair practices of society. Basically I view my job as being a light shining on dark corners.

Newspapers often facilitate the imposition of certain key norms in dealings between people. Here is one example of a journalist enforcing the norm that only important news should be published on the front page:

Brian: There was one day when [a journalist] came in and saw yet another story of some cute animal on page one and he just started ranting—this was pretty early, it was at nine in the morning, so most of the staff wasn't there, but he and I get in pretty early, and he starts—"There's another animal story! No more animal stories!" He starts yelling down towards the desk, "No more animal stories on page one! We have had it with animal stories!"

The shared work product and its public nature make the newspaper a characteristically social place in which people regulate their shared work activity through informal sanctions. Alexis describes visiting an editor of hers after she'd been laid off, and complaining about a story that she'd seen in the editor's section, and witnessed the editor's shame.

Organizational Norms or Industry Norms?

One might also wonder to what extent these described norms are endemic to the organization rather than the industry. This seems to depend on the newspaper. Many of the norms are localized to work groups within a paper, and may be contentious even there. According to Carl, some of his colleagues did not approve of his effort to maintain long-term relationships with his sources. They fear that these relationships would keep him from reporting the news accurately, so Carl had to contend with their norms while also asserting the merit of his own.

Aesthetic, pragmatic, and justice-oriented norms inspire the survivors of organizational failure to reconstruct the normative environments of failing firms in their post-failure projects. These norms are not unyielding, but their emergence is consistent and predictable. Without some countervailing force, many survivors will default back to the preferred norms of prior occupational settings, and some will seek to alter or change a new setting to impose the norms of prior work contexts.

Of the examples provided so far, the personality norm of the Regional Post, the taste for irony at the City National, the emphasized audience fit strategy at the news organization that hired Mark, Rick's photojournalism at the Dispatch, the anti-authorial norm at the Economist described by Trent, and enterprise journalism at City News are all idiosyncratic to a given organization. Obviously, other industries would give different examples of idiosyncratic norms, but these norms were chosen for their specificity. Other norms provided as examples, such as the justice-orientations of journalists, Helen's short meeting norm, Lisa and Carl's relationship development norms, and Alexis' effort norms seem to arise within specific organizations, but also seem to be shared widely throughout the industry. However, these norms still offer some evidence of continuity because the specific transfers demonstrate continuity with organizations outside of the newspaper industry. If some norms are shared among newspapers, but the mechanism through which they are inculcated is organizational in nature, then transitions outside of papers that preserve these norms are demonstrations of their continuity. Transitions within papers may also result in continuity, but it is not possible to determine whether this continuity derives from the sending organization or not.

All three types of norms overlap with organizational routines. Many routines are reinforced by social norms. Very often, pragmatic norms perpetuate a given process based upon a simple notion of what works; other processes are reinforced by aesthetic norms that are unlikely to change without intervention. Justice-oriented norms also have corollary routines. One journalist from the City National described a situation at that paper where a news story gave positive coverage to a public personality without disclosing that the reporter and the personality were both employed by the same parent company. This was a major violation of a justice norm that says that editorial policy should be disinterested. It is also a failure to follow the routine for such situation, which involves a parenthetical note like this: “Full disclosure: the public personality is employed by Parentcorp, a firm that also owns the City National.” Full disclosures of this sort are routinely utilized to disclose conflicts of interest. The failure to follow the routine was a violation of a justice-oriented norm that relates to the fundamental trust between journalist and reader, but most news organizations disclose so routinely that there is never cause for conflict over a norm. While routines are likely to transfer with the norms that reinforce them, the transferability of routines is only partially explained by the transferability of norms. The next section seeks to distinguish between routines that are easily transferred and those that are not.

The Persistence of Low-Volatility Routines: Relational Processes

In computers, there are two types of memory. Random-access memory maintains immediate access to active services, applications and data objects. Flash memory provides persistent storage for binary data. Random access data is much faster, but in

order for it to work it has to be reminded of what it is storing on a regular basis, otherwise, its high-volatility storage will “forget.” The volatility distinction provides a useful metaphor for distinguishing between routines that are transferable and those that are not. High-volatility routines require the organization’s energy to maintain them. As soon as they are unplugged from the system, they begin to degrade. Low-volatility routines are persistent in the sense that they are durably stored in a way that would allow them to be reactivated once called upon. I prefer this metaphor because it focuses attention on the energy involved in remembering on an activity basis. The phrase “like riding a bike” captures the spirit of a low-volatility routine as an individual skill. Once a person learns the sense of balance and feedback involved in riding a bike, the nonuse of that sense does not result in its degradation. In contrast, many people find that periodically interacting with computer software or programming an electronic device requires them to re-learn a process every time. If these acts are done often, they become routine, but when carried out sporadically, they are effortful and cognitively taxing every time. By extension, high-volatility routines are cognitively and socially taxing to redevelop in a new context. It may take a journalist as long to remember her role in a rarely-used routine as it did to learn that role in the first place.

Some volatile routines will survive, and some persistent routines will dissipate, but certain features typically make routines more portable and less embedded in an organization. Hoetker and Agarwal (2007) observe these properties in their patent-based analysis of disk manufacturers. They find that patents which include a diverse group of people with differences in expertise are less likely to be cited after a firm fails than those

that are more embedded in one individual or one narrow specialization. The same can be said for the routines in newspapers. Processes that rely upon multiple departments are less likely to persist than processes that are embedded within a single department. For instance, the relationship between assigning editors and writers often seems to persist: writers keep writing for their same editor, moving together to new papers, or the editor keeps sending the reporter work from another paper. However, the serial triggers described as a nine-step process above are unlikely to survive intact.

Many routines are defined by external relationships to the firm, and these routines are relatively robust regardless of the firm's fate. Take Katrina as an example. She was laid off by the Local Blotter and hired by another local paper shortly thereafter. In the Blotter, she was a court reporter, and she went on to report on courts again for the other local paper. She spoke to the same sources, read the same public documents, relied upon the same databases, and worked in the same location. Different newspaper, same everything else. Her news cycle routine, as defined by that court, was virtually unchanged by the layoff that moved her from one organization to another. The chances of her getting a job that would permit her to cover the same subject in the same geographic location weren't particularly good, but once she did, everything else was in place. The motives for the other paper to use her in a similar task were clear: she could quickly begin to do the work without new training or the risk of misfit between her abilities and the requirements of the job.

Others have moved to different organizations in which similar routines are undertaken in different ways.

Phil (Laid off by the City National, hired by an online news outlet): If you have a newspaper and you spend 20 years [there], there is a way of doing things and even checking into the building in the morning and you get used to that. With change, your entire system gets blown up and you have to reassemble the pieces and if I was to offer a metaphor that is meaningful... If you had a beautiful glass window and someone threw a rock through it and it was destroyed, you can pick up those pieces and create a beautiful work of stained glass and put that up. But not everybody thinks that way. For me, the biggest struggle is preparing for the changes that come my way, because change is a way of life.

In Phil's move from the City National to the online news outlet, many of his routines were shattered. At the National he would never have been responsible for laying out his own content or creating his own graphics since these tasks had entire departments to which they were entrusted, yet Phil also was unable to get an idea past the bureaucratic gatekeepers to get it published in the way that he wanted. Phil echoed others in his frustration with the unwillingness of the City National to let him see his ideas through. Phil learned from these lessons, and as an editor he uses a different strategy of selection, allowing people to create things that don't work so that they can learn what does.

Phil: One of the differences I am finding out... is that [the online outlet] has as serious of a commitment to journalism as any newspaper that I have ever been at. The difference is that the paradigm is totally different... the reason a lot of newspapers [are miserly with space], is that print is fixed space, so you have to be really careful about what you do and how you do it and how you commit to it. As an editor at [an online outlet] I can make the biggest layout I want. Hell, I'm not even a graphic artist and I am doing a lot of the graphic design and photo illustration for about 70% of the stories I write and edit. If one of my bosses doesn't like it, I can go in and redesign the whole thing in about 10 minutes. I can double the length of it. You don't have to worry about using up all this newsprint, or doing something the "correct" way. The amount of flexibility is much greater.

One of the main challenges that Phil faces is trying to impose the routines from the City National and other papers onto his writers so that they have a sense of professional integrity. This is not easy, and he spends a lot of time strategizing about how to do it. Thus far, he has set out to develop training on journalism ethics, but this raises a question

of whether these norms can be deployed out of context among individuals who lack training as journalists. However, he says that many other routines of writing, editing, developing stories, and assigning reporters are almost intact from the failed firm.

The most important routines that transfer relate to the collection and presentation of information. These routines work through both internal and external channels, and cross over the boundaries of the firm. Journalists who learned to defend their story ideas to their editors as a means to getting them published may move into roles as public relations consultants, pitching story ideas to journalists from the outside. They understand the motivations of the media outlets and have years of experience receiving the pitch that they are now making. These shifts tend to happen conditionally on the maintenance of some basic normative limits in keeping with the spirit of journalism. To provide a sense of the hypersensitivity of these individuals to conflicts of interest and the imposition of bias through editorial policy, they talk of “feeling dirty,” even though they may work for universities, school newspapers, public-sector research centers, or progressive political candidates. Some experience no conflict at all because the organization that hired them expects them to present things accurately; others self-monitor.

To give a few other examples of routines that transferred, Gerry, a former copy editor from the City National, became a college sociology professor relying upon a master’s degree that was decades old. Though he is not particularly well compensated for his work by his employer, he does painstakingly edit each of his students’ papers to try to make them better writers, a process that he can do much more quickly than a non-editor ever could. Helen uses her skills as a reporter to write informative emails to her

nonprofit's stakeholders to update them on their cause. On each of her trips to meet with their partners, she schedules visits and writes reports on what she learns by interviewing allies that share their cause. Richard, a former foreign correspondent for the City National, was laid off and got a job teaching journalism at the college level. He continues to write stories on some of the same topics and locations that he covered for the National. Lisa had a front-page story in the City National after she was laid off by that paper and has since been offered a very good job at a different newspaper.

Knowing a journalist can be useful. Many of us have stories that we would like to see printed, and a journalist has an interest in finding good stories. Interestingly, news continues to find its way to journalists even after they stop writing for papers. Lisa's front-page story came as a tip from a friend of a friend that she tracked down. The relational process emerges from the latency in the social understanding of what people do. Because people's networks are not entirely updated on a person's occupational circumstances, informal social processes that provide story ideas persist, another strength of weak ties.

What these routines have in common is their low volatility. They do not need a constant application of energy in order to maintain them. Weak ties are retained at a very low cost, and the reporting relationships that persist are similarly sustainable. Many journalists maintain contact with their colleagues, direct reports, and immediate superordinates, and many career opportunities seem to flow through these channels. Persistent routines are also relatively flexible or somewhat universal in character. Those reporters who have been hired as editors for online outlets impose routines that are

modified versions of the routines that they themselves were subjected to on the other side of the relationship.

The skills of journalism are transferable, but adapting them can be time-consuming and frustrating:

Carl: I will tell you the biggest decision I have had to make is technology-wise. When I was at the City National, I had a laptop, I wrote my story, they showed me how to transmit it, done for the day. Now, I am here writing the story, posting the photos, updating stats, learning how to design pages, create things, all these things that I have never had to deal with before have come into play. I guess that's good for me because I am learning stuff about technology. I am 56 years old, though, so it takes me a little longer to pick it up.

Some routines persist through the trivial transfer of specific technological implementations that facilitate use. Libraries acquire images from defunct papers, and they provide an archive that is similar to the archive found within living newspapers. Jason purchased a truck full of newspaper boxes from the Regional Post, and has been using them to sell his papers.

Routines are particularly likely to persist when they overlap with norms. For instance, Katrina learned to appreciate the importance of a paper serving as a public record for the community while at the Local Blotter. When she moved to the other local paper, she continued to attempt to impose this norm by writing more stories than they would print for her section with the hope that they would somehow become news. They did print more of her material, so the result was a compromise.

The Cessation of High-Volatility Routines: Technology and Black-Box Procedures

High-volatility routines are severely weakened by the failure of a firm, and most do not survive transfer. The first of these is compensation:

Jeff (Laid off by the Regional Post, is now freelancing): I lost a steady paycheck. I lost security, in a lot of ways. I lost the camaraderie and the ability to work with a staff like that. I lost that feeling that you are really doing something for the community that feels important on a day-to-day basis. Sounds a little idealistic but I felt that way. But what I gained, I gained freedom and I gained the ability to steer my own direction and I gained stress.

Financial obligations are a classic example of high-volatility routine. Employment relationships persist by virtue of the active set of interactions and obligations that trigger regular payment and administration of benefits. Beyond payment, an assortment of routines becomes less accessible or entirely missing. Some post-failure projects come to have awkward sets of routines by virtue of their lopsided uptake among distinct occupational groups, at the post-failure project from the Regional Post, this occurred:

Sarah: The other problem was that we were very heavy on copy editors and not so much on reporters, and that was a big problem because the copy-editors that we had were not accustomed to having to generate content.

Interviewer: Why were you so heavy on copy-editors and not reporters?

Sarah: Because it was harder for the copy-editors to see a path of where to go next, so when this opportunity came up they thought, "Ooh, this is something I could do." They'd been pushing us onto the web at the Regional Post for a long time, so everybody was learning how to deal with content management. And they thought 'Well, if I can pick that up, and this is the wave of the future', but it doesn't translate, and that's where the disconnect comes. Copy-editing for a newspaper and copy-editing/content producing for a website are different, and I think our folks had some adjustment problems.

Interviewer: What was it like for you as a copy-editor?

Sarah: I was a copy editor, and then at the first project I was running the site for a period of time, usually at night 3 or 4 days a week, I'd alternate with another person and other folks had it in the morning. We were checking traffic, kind of like an Internet news editor, that's not what we called it, but that's what the role was. I was working with the copy-editors, working with the reporters to some extent, not very much with the reporters, more with the copy-editors, and checking to make sure that things were filed when they were supposed to be filed. If there was something going on, make sure that it got covered. I'm not a reporter, I'm really bad at reporting, I'm very good at editing, not really good at reporting. So the prospect of going out and reporting did not appeal to me.

The external labor market for former employees from the Regional Post created a mismatch between the unemployed and the skills that an entrepreneurial venture needed to persist. Add to that the priority of being open to all, and you have a recipe for stress, and eventually failure. Many post-failure projects operate in this lifeboat spirit where all comers are welcome. But the risks of such a strategy are significant and possibly insurmountable. As Sarah explains, the “open to all” strategy is most likely to gather those individuals whose labor market opportunities are limited. Thus, if there is any change occurring in the industry that makes it easier for some skill sets to find jobs than others, then this inequality will burden (and possibly capsize) lifeboat organizations.

It may or may not be possible for the average editor to teach another person about journalism so that she or he can report. It is arguably not possible for an editor to get another editor to be a reporter. This was one of the key issues discovered through the interview process.

Interviewer: Did you think about being involved with any of post-failure projects?

Karen (editor at the Regional Post, laid off, got a one-year position in Africa to relaunch a newspaper): No. I just didn't have any sense of any possibility that they could succeed.

Interviewer: Why not?

Karen: Well I think that they were trying to do something that we were trying to do at the Regional Post and you just simply can't do it with 25 people. If they had been more specific in what they wanted to do, maybe, but they can't be an all-around news source for the city with 25 people. You can barely do it with 200 people.

Many routines are scale-appropriate. They cannot be transferred into an organization that is significantly smaller. For instance, the group that worked together after the Regional Post failed attempted to cover many of the same stories in the same way that they would have at the Post, but their organization was a tenth the size. Naturally, this scale

difference should have changed what news they covered, but a new routine of focused news priorities did not immediately coalesce. Instead, they relied upon the established routine of attempting to cover every event from multiple angles, in a way that many acknowledged led to rapid burnout of thinly spread collaborators.

Other high-volatility routines include the databases and information structures available to the employees through the failed organization, including embedded software, which is often proprietary. When organizations fail, employee email addresses are deactivated, websites are often taken down, and information resources are no longer accessible. After that, many forms of occupational organization must be recreated. Employees must replace organizational email addresses with personal accounts, create new files on personal computers, and pursue their work independently of organizational software. For photographers, this might mean expensive purchases of equipment. It might also mean that they are required to edit their own work when others would have done it previously.

In general, it is difficult for employees to transfer processes that they do not understand and that are ascribed to individuals who they do not know or technologies that are unfamiliar to them. Sometimes, they can find support for these processes outside of an organization. Employees may need help within an organization to solve problems with email clients and server errors, but comparable services are commercially available, sometimes for free. However, more complex services may not be affordably obtained. When the Regional Post closed, its employees lost access to a news archive that spanned more than a century, covering locations, people, and issues local to them, an archive that

also included photography and stylistic guidance. At the same time, there were information services to which the Regional Post subscribed that the small post-failure entrepreneurial entity could not afford, and these cumulative resources impaired the news production that the organization was capable of doing. These technological limitations contrast with the more human side of the organization, which was able to transition. For example, sports writers were able to obtain press passes to events despite the fact that they no longer wrote for printed papers. This is a personal kindness considering that these individuals were writing for online-only publications and that the official standard that most sports teams use to guide the provision of press passes focuses on printed publications in order to exclude bloggers.

The study of organizational routines and their transfers is complicated by the environmentally sensitive nature of routines as applications of prior routine experience. Some routines segue well into others and then morph back into their original form when it is possible to do so. As a study in the post-failure transfer of organizational routine, the next section takes up the character of job scope as an organizational and occupational characteristic. The example illustrates the aspects of self-presentation that influence the persistence of some routines, and the relationship between perceived labor market demand and the redeployment of routines from failed firms.

The Division of Labor as Organizational and Occupational Routine

The division of labor is one of the most basic features of work organization. Its post-failure trajectory follows divergent paths depending upon the organizational and market incentives that employees perceive. Given the same breadth of purpose at the

organizational level, a larger organization should utilize more occupational specialization than a smaller organization: bigger newspapers should provide narrower jobs. This is facilitated by the existence of specialized sub-organizational units and complex routines that pass work products between divisions until they are completed.

However, interviews in both newspapers and investment banks demonstrate that the division of labor arises within a more complicated relationship between the employee and the organization than the subdivision of occupational tasks can explain. Many large firms provide job mobility and side project flexibility as perks. These perks are intended to give employees better training and to help with retention. For instance, the City National offered all employees the opportunity to serve as writers in one news section after they had established enough tenure to apply. The National would also “throw bodies” at a big story, encouraging employees who didn’t usually write stories to cover part of a major incident. Global Investment (see Chapter Four) demonstrated similar flexibility by giving tech employees time to experiment with new technologies as side projects.

The division of labor may expand or contract as firms fail. Some firms relax their restrictions on employees, allowing them to seek more innovative alternatives, this occurred at some offices of Open Investment and Walls Investment (Chapter Four), at the Afternoon Dispatch, and at the Regional Post. Alternatively, some firms tighten the reigns on employees and try to focus them within their unique competencies. This happened at Open Investment offices that were located close to the Open Investment headquarters, at Adant, and at City National.

When papers relax their restraints on the breadth of work as they near failure, the desperate measures of a beleaguered firm permit individuals to experiment with story concepts that would not have been permitted when the paper was healthy. Desperate measures also drive people to work harder in producing the old and the new simultaneously. Some of the changes were mere additions to standard work practices that failed to improve core work products:

Bob (a reporter at the Regional Post, laid off, now freelancing): The role of the reporter [stayed the same], yes there was the Twitter, pictures and video with your cell phone, but you were pretty much focused on journalism. You weren't also a copy editor.... They changed the cell phones we had and gave us new phones... that were enabled to do video, because that was in our new job description.

Interviewer: Did that work...?

Bob: It gave me a facility with technology that I probably need to know. But did it improve my stories? No, I don't think so. Did it improve the Regional Post that much? I don't think so.

Other organizations allowed a broad license that permitted every employee to engage in divergent work tasks. Trent created an auxiliary website on behalf of the Dispatch without anyone's permission and showed it to his supervisor for suggestions and revisions after launching the site. That logic of production, review, and modification is very common in web production but almost unheard of in news journalism, and Trent admitted that he would be fired if he were to take the same approach with his current employer.

At the Regional Post and the Afternoon Dispatch, work roles diversified amidst failure. People were encouraged to experiment and to try out alternatives. The forced organizational change at City National is very much the opposite. In that paper, work roles narrowed considerably. The paper had once encouraged editors to do some writing and to bring story ideas, but as the paper's payroll's dwindled it began to use a more

controlled process in which writers wrote and editors edited. One editor says that he wrote at least one story per quarter for over twenty years, but didn't write any in his last two years at the City National.

The complex interaction between failure and the division of labor continues after individuals are laid off. First, when it comes to post-failure projects, many post-failure entrepreneurs have an unusual amount of access to highly specialized support. Though most entrepreneurs would be unable to muster a highly qualified design editor to do section layouts, Jason had temporary access to this kind of support because of his occupational community.

As a more standard case, the division of labor requires that generalists act as if they are specialists as they apply to specific jobs. Many journalists choose to highlight a particular expertise in order to make themselves competitive for expertise-specific positions. This sometimes involves selective self- presentation because many reporters have covered half a dozen different desks and issues, and simply stumbled into the expertise that they now possess on a given topic. The Internet provides journalists with a whole new toolkit for developing an expertise narrative. With blogs and online magazines, journalists can write things to go into their portfolio and can control which stories they use for self-presentation. Personal websites are then used to present these narratives within an area of expertise. As journalists search for jobs, they work on projects that contribute to their portfolios and show off their expertise. Their efforts have the immediate effect of narrowing the breadth of the projects that a journalist will take on as a freelancer outside of the bounds of a large firm.

Why do they want to become experts? First, entry-level journalism jobs often expect an unattainable diversity of skills, asking a new hire to write, interview, report, video, research, blog, and code web pages. Such a skill set is unlikely to ever occur in any person with any degree of proficiency, and certainly not in a 22-year-old fresh out of journalism school. Experienced journalists wish to distinguish themselves as writers and thinkers to avoid this kind of position, particularly because many of these positions are posted for a third of the pay that experienced journalists have come to expect. Expertise-seeking journalists believe that once they become an expert their prestige will help them to get and then retain a job. There is some precedent for this: at the Local Blotter, for instance, last-in first-out layoffs skipped over a few young employees whose expertise ostensibly justified retention. Likewise, layoffs at the City National did not include news areas where the management valued expertise. The business desk was one example.

The expertise orientation appears to be a job market strategy rather than an occupational redefinition. Once journalists find jobs, tasks again diversify as they seek to retain a job within an organization and thus to do what the organization needs them to do. Once survivors of failure get positions in papers, the jobs are not so different from the ones that they left. There are fewer people in papers, and this means more work to go around, but the domain specifications of city desk vs. features have not changed, nor have the structures of the stories that these desks require. So, if the organization is healthy, the journalist might have a chance to diversify her or his work tasks yet again.

Unlike the journalists who are hired back into narrow jobs in big papers, the journalists who go to work in small papers experience the stress of *bricolage*. The

cobbled together existence of the entrepreneurial firm provides diverse jobs for the accidentally available. Some journalists cherish the opportunity. Norm had served as a design editor for nearly 30 years laying out the pages of the Regional Post. He was thrilled in the post-failure projects to have the opportunity to take pictures for the new paper. It was a role that he hadn't had the opportunity to pursue for years, though he'd worked as a commercial photographer early in his career. The stressed entrepreneurial firm gave him room to pursue digital photography; his passion became a vocation. Note that this directly contradicts the specialization to which Jason had access initially in the design of his paper, so the point is that initial specialist access does eventually abate, and small-firm employees must deal with small-firm realities in which diverse tasks arrive on the desk of each employee. Jason drives across the state to pick up his printed papers and does writing, editing, photography, and some business services. So, while he recognizes his own limitations and seeks skilled professionals to offset his work, he is certainly doing many tasks that he did not have to do at a large paper. At its best, reconfigurations like this provide journalists with learning experience, and bond them together with interdependencies, what Durkheim called "organic solidarity."

Oddly enough, employment security and organizational health seem to relax the specialization of labor so that high performance firms will tend to be less specialized than firms that experience rapid decline. But the oscillation between specialization and occupational flexibility across careers and within firms illustrates the tremendous mutability of very basic organizational routines. The lurking variable here is organizational slack, which may rise and fall with the health of the firm.

This chapter began with an introduction to the newsroom and distinguished between norms based upon the rationale behind them and routines based upon the energy necessary to maintain them. There are two important topics that remain to be discussed in the following section. First, the other factors that bridge or barricade the way for the transfer of routines and norms. One major consideration of these factors is whether they are positive sources of selection for routines and norms or merely arbitrary.

Bridges and Barricades: Selection Processes in Post-Failure Transfers

The process through which norms and routines persist relies upon six interdependent factors, none of which is easily isolated. First, persistence depends upon the *causal attribution* of failure. When norms or routines are blamed for a firm's failure, they are much less likely to be retained. Second, positions within *hierarchy* establish opportunities for post failure organizing. If norms were entirely imposed by management without buy-in from employees, those norms are unlikely to survive a failure. And if employees enter into a position within a new firm where they have little control, they will have few opportunities to impose their norms and routines. Insofar as hierarchies persist, more routines and norms can also survive. More generally, persistence depends upon the *opportunity* to do similar work in a similar way; hence, the opportunity to find a similar job is initially determinative. But that opportunity is also conditional on a set of *choices* that the displaced worker makes. For instance, many displaced workers choose entrepreneurial and marginally compensated work rather than career alternatives outside journalism. Some who have survived one or even two firm failures nonetheless continue to seek work as journalists rather than work that would require a more drastic career

change. Willingness to make personal sacrifices defines and expands the opportunity set of the displaced worker. But if the journalist is unable to find or make any work at all, as is the case for those who stay unemployed, then there is little chance that work routines and norms remain occupationally relevant. Individuals have some agency regarding occupational opportunity, subject to significant constraints.

Though journalists are able to choose alternative paths, *inertia* often carries them along internally consistent careers. Skill compatibility makes it easier for a job seeker to acquire a job along the same career path than it is to find a position that is inconsistent with career history. Social support for a job seeker is also more available along the same career path. Displaced workers are more likely to find journalism-related opportunities through their peers because their peers are often journalists and because those who are not continue to think of the displaced worker as a journalist.

The final factor, *receptiveness*, relates to the openness to the routines of failed firms on the receiving end. Transfers to very similar work may nonetheless destroy routines and norms if the hiring organization is unwilling to grant them refuge. Receptiveness also encompasses the status of the hired individual within the hierarchy. Due to their status, some people within an organization have the power to impose the norms and routines that they choose.

Causal Attribution

Many post-failure employees are at least temporarily obsessed with the causal attribution of organizational failure: why did the firm collapse? What went wrong? The answers to these questions are, for traumatized employees, particularly strong

motivations in the search for alternatives. Tim explains Jason's business model in terms that attribute Jason's choices to avoiding the pitfalls of the Regional Post's strategy:

Tim (photographer at the Dispatch, laid off, hired by the Regional Post, laid off again, now involved in a post-failure entrepreneurial project): Just say the words "business model" and let [Jason] go. At the time that the Regional Post went down, they had debts over \$100 million because of the news presses that they'd put in. Jason will tell you all about being light, and nimble, and unencumbered by overhead.

Jason and Tim both survived the failure of the Regional Post, and both have had time to think about why it failed and what its failure means, and one of its key implications is that debt makes a business inflexible and therefore fragile. This is one of many lessons that journalists learned from the layoff. Every journalist learned that layoffs are possible, a non-trivial lesson in a failing industry. Other lessons seem to be sporadically discovered. Many journalists learned the importance of political positions, relationships, and specialized skills in finding a job and recovering from failure. The process is subjective and interpretive: different journalists reach different conclusions in this sensemaking process. One journalist says that the future of journalism is in personalities. Another provides a counter-example in the news magazine *The Economist* and expresses his own doubts. One journalist says everything needs to go online. Another says that a small community newspaper can still make money because it is the only game in town, and that everything that newspapers are doing online is losing them money and wasting their energy. One says blogging is the future, while another says that the frenzied focus upon constant reporting and the 24-hour news cycle is a distraction that dilutes the core competency of news: thoughtful analysis and primary coverage. One says that newspapers can't afford to cover small community events, while another says that the

only motive people really have for buying the paper is seeing their kids in it which is a business model in itself: it gets the reader to feel a sense of ownership and participation in the news outlet. The list could go on. Everyone agrees that newspapers expanded too aggressively into the suburbs, that news organizations took on too much debt to upgrade production equipment, and that they made the mistake of putting content online for free which taught readers to read news online without teaching them to pay for it. Beyond that, the interpretive lenses provide dozens of different understandings of what went wrong and why. Pet theories abound, and norms associated with failure are undermined in the process.

Hierarchies

Persons in positions of authority impose norms. The Regional Post, for instance, is described by most of its survivors as “frantic,” “crazy,” and “feverish,” and former Post journalists all say that their occupational pace has slowed since the paper closed. Under the Regional Post’s leadership, most employees were being asked to blog, take pictures, upload videos, and tweet on Twitter as the news was breaking. Now that the Regional Post is gone, few of its former employees maintain these practices; the norms were not internalized into the practices of the employees, and once the managerial demand dissolved, the practices quickly followed. And what of the management hierarchy? Does it survive?

When new organizations emerge, the structure of the organizations yields a diversity of hierarchical relationships. At CityNews.org the editorial hierarchy shrunk but remained firmly entrenched. In fact, the project has been criticized for the lack of

diversity in its leadership and among its staff, a quality that may be traced in its genealogy back to the City National (Phillips 2005). CityNews.org remains heavily edited, and the hierarchy persists from the City National, albeit in a smaller organizational form.

Other organizations emerge from failure with less structure. In the place of managerial hierarchies, experimental collaborative teams take shape. These minimalist organizations are able to try new things and learn new skills in applied ways with relatively limited financial risks. The risk-taking is reinforced by unemployment and/or severance income that enables organizational experimentation by otherwise risk averse individuals. When everyone is sharing in the risk by working for free, sharp hierarchies are not justifiable. The egalitarian work model that emerges is very different from the newsrooms that it replaces. And while editing and supervision remain in place, the demands that editors are able to place on reporters are significantly curtailed.

The spirit of egalitarianism is slightly exaggerated by the financial reality. As firms grow, the reemergence of conflict is likely to occur as soon as there are resources available to sustain conflict. With nothing to divide, the person who gets 50% gets as much as the person who gets 1%, but these are very different allocations when a firm is generating a \$100,000 profit. The nascent form of organizational egalitarianism does not necessarily provide a sustainable form of workplace equality.

Some post-failure projects, like the one that emerged from the City National, maintain relatively sharp hierarchies that create traditional editing relationships. This can be frustrating for reporters whose writing continues to be heavily redacted. However,

much of the benefit comes from a sense of purpose and integrity that the City National is believed to have lost, which has been reclaimed by CityNews.org:

Interviewer: So what is that organization like relative to the National?

Michelle (features writer at the National, laid off, hired by entrepreneurs): It's like night and day. At the National, every idea you came up with had to go through seventeen layers of people analyzing it under different auspices, saying yes or no, thinking about it, and then there was always this issue, especially in the last couple years I was there, a seep through of the wall between advertising and editorial, which was really a big problem. I suspect it still is, but I can't speak to that. At the [entrepreneurial project] it's like, "You want to do this story? Is it a good story? All right, go do it!" It's a different set of parameters; the bar is higher and also just different, because we're trying to cover things that haven't been covered before in a way that they haven't been covered. You can really psych yourself out, I've found, because everybody has touched on something at one point of another. It's almost impossible to come up with something that no one has ever heard of before. And that's been a challenge for me too, just coming up with [stuff]. It's been a challenge. It's been exciting, and occasionally exhausting; sometimes I just don't know who to talk to, I'm learning a new beat.

Norms survive, and many of the norms that disappear are welcomed departures. This shows a constructive process of normative retention. Michelle was learning a new beat, a task that many reporters have to do within the paper where they work. What is remarkable is that the process is no more jarring than that. One would think that by moving from a large organization to a small one by way of a layoff, that Michelle would have lost even more. Instead, she retains almost all of the work roles attendant to her work activity.

Opportunity

Ideally, a profile of labor market conditions would help to establish the opportunities that are available to displaced workers, but the market outcomes provide only a summary picture. Taken together, the distribution of jobs to which people move after job death gives a snapshot for both cause and effect in the transfer of norms and

routines. The Dispatch, as the smallest firm studied, provided a unique opportunity to observe a relatively complete census of post-failure occupational trajectories. These outcomes are reported in Table 4 based upon interview data with former employees.

Table 4: Frequency of Key Post-Failure Transitions at the Dispatch

Post Failure Job	Count	Opportunities to Transfer Routines and Norms
News	21	Frequent
Freelance	5	Frequent
Public Relations	2	Frequent
Education/Teaching	8	Conditional
Student	2	Conditional
Unemployed	1	Rare
Retired	4	Rare
Unknown	3	Unknown
Other	2	Unknown

The table illustrates that journalists tend to continue practicing journalism as employees or freelancers, that some move into teaching or public relations, and that a few find other occupations. Because Table 4 includes employees who were not directly involved in news production, it should be viewed as a conservative estimate of the likelihood that a journalist will continue to be a journalist after the collapse of her paper. Some other occupational groups within the newspaper industry also make surprisingly consistent transitions. For example, the receptionist at the Dispatch became a receptionist for another local newspaper.

The evidence from the Dispatch indicates a strong likelihood of a transition within journalism. More than half of the staff of the Dispatch continue to work in a field that is closely related to the work that they did as journalists. Many found jobs at newspapers in other places, and a few even found employment in the city's surviving local paper. Some

are freelancing, writing copy, or taking pictures for commercial projects in order to subsidize the few journalistic projects that they are able to do. Some have taken jobs in public relations, most often for public sector or philanthropic entities.

In the most tightly coupled cases, journalists moved to local papers and continued covering the same topics using the same sources and writing for the same audience. Nonetheless, even these proximate transitions are not without consequences. For instance, some journalists have been rather unsatisfied with the editors and work culture at the paper to which they moved. The more standard move in journalism requires relocation, often both geographic and topical. The journalist covers a new subject for a new audience, and must start fresh in finding sources and learning to write for a new audience. Nonetheless, such transfers provide considerable opportunities to approach the work with the same norms and routines, and journalists may even choose between jobs based upon the norms at the hiring firm. Transfers into public relations involve a subtler uptake of routines, but the professional social contacts remain useful, and stories are pitched with a similar emphasis. Individuals who move farther afield from journalism are managing bars, getting certified to teach, retired, having children, and starting businesses.

It may be helpful to provide a more specific analysis available directly through the qualitative data collected. I met five journalists from the Dispatch two years after their firm closed, and for three of them, the career struggles that began with the closure of the Dispatch were ongoing. Initially, the occupational fates of this group were rather positive. One entrepreneur focused his efforts on a wedding photography business with his wife. Three others quickly found jobs at other news organizations. The fifth traveled

internationally. Only one (aside from the entrepreneur) was lucky enough to find a local job, but jobs were available for those who were mobile. The lack of stable employment options in journalism is a major challenge for Dispatchistas⁸. All three interviewees who stayed in journalism were laid off again during the next 18 months. One fell prey to the “last in, first out” routine of the hiring firm’s collective bargaining agreement. Another worked for a bureau that later closed. A third experienced a nearly identical repeat of the failure of the Dispatch while employed at the Regional Post. When these three individuals returned to the search for journalism jobs, the search proved much more challenging. At the end of two years, only one of the five was making more money than he had been at the Dispatch, an increase that counted for little given the cost of living in the place where he moved. The entrepreneur was the only person who had not continued to practice as a journalist, and his photography business specialized in a photojournalistic style of photography.

There are many challenges faced by journalists, whatever their motivations, in order to stay in the field:

Josh (laid off by the Dispatch, started wedding photography business): I think a lot of us started out in this career young and enthusiastic, with no ties, and idealistic, and it isn’t that those passions don’t still exist. But family comes in too. You’ve got children. My wife’s family is from here. What job am I going to go to slave away for less money in a different place when I love it here? Where you live and how comfortable you are, and the environment becomes more important. When I was a little younger, if somebody said, ‘Oh, there is a job in the middle of China’, and it was a good job, I’d be going. If somebody says that now, “No thanks! Pass.”

Michelle: Last August I was seriously considering leaving the city, but then I

⁸ The name “Dispatch” is a pseudonym. “Dispatchista” is a rough approximation of what Dispatch employees call themselves. Like many sources of identity, firm-based occupational groups devise a shared language to talk about their group and its members.

thought I don't know what to do. It's not a one-horse-town, but if you're exiled from the world of the City National, it's hard to figure out how you're going to make journalism work as a career here, so I thought I should go to a bigger city.

Patrick: The job market was really bad and there weren't a lot of options anyway. What I knew was that it would be pointless to try to find another job in journalism. Layoffs were ongoing. There would be absolutely no way that anyone was going to pay me what I was making. I didn't even try that route. I know places like online news and some online publishers are hiring now for different online editor and writer jobs, but they're paying half of what I was making at the City National. It's better than an entry-level salary, but not significantly so. I know they're working their butts off, too. I have zero interest in that.

Ellen (reporter at the National, took a buyout, then the recession forced her back to work): I didn't want to go look for a job. I didn't think I was competitive because I'm 65, and I've written too much about age discrimination. I didn't think I was going to get a good job.... I felt that we became like steelworkers. I really did. Our industry is going away. There's no preparation for us and there are no safety nets. People in late middle age are really screwed.

These accounts illustrate the complex set of considerations that motivate career decisions for post-failure employees. These are at once regional, organization, and market-oriented. It is clear that these transitions have caused a tremendous amount of stress and hardship for the survivors of failure, a topic that I revisit in the concluding chapter. But as the next section will make clear, journalists are powerfully motivated by factors other than occupational and economic opportunity.

I do not deny that opportunity plays a key role, particularly among those who become discouraged in the search for similar work and eventually choose to seek alternative employment. However, the importance of opportunity does not dominate other factors. Given the state of journalism and news production, one might expect for every person who has been laid off from a news organization to immediately invest in retraining for a different career. Instead, many go back to school for additional expertise in journalism. This counter-intuitive outcome is reinforced by national trends in

admissions to undergraduate journalism programs (Streib 2009). Even as the industry experiences the tightest job market in decades, enrollments are up and demand is strong for an education in journalism. The availability of jobs in journalism, here described as “opportunity,” is unable to explain the ongoing human capital investment in the field. Students know that they are several years and multiple unpaid internships away from an undercompensated job, and that even if they can get a job, that job may be threatened by organizational collapse.

Perhaps these students haven’t been reading the newspaper? On a human capital model, nothing could be less rational than for the aggregate investment in particular skills to increase, even as the return on the investment of those skills is in a pernicious state of decline. Something must be missing from the model. I have no insight into what journalism students are thinking, but I do have data on the motivations of journalists to stay in journalism amidst career trauma, motivations which may justify the educational investments of students.

Why Journalists Choose Journalism: Choice

Journalists love journalism because of the experience that they have had (or hope to have) within newspapers and the community of people that papers bring together:

Lisa: Being in a newsroom is like being in a bar with the smartest, funniest people you will ever meet. They just use the worst, most horrific language.... People are so colorful, and just, they're wonderful to be around. The day just passes like, in an instant, when you're around these types of people. [In my new job] my world has become a lot smaller and much more myopic. And it's like, I go in my car. I come to the [office]. I go in my car. I go home. I don't get a taste or a sense of any other type of life outside of this place. And I really don't like that.

Newspapers provide journalists with a sense of meaning, a purpose, and a community that shares these values. Combining these three attributes with an educated, irascible, and

often comical workforce makes newsrooms a dynamic and exciting place to work. Lisa's quote illustrates one of the most important features of life within a newsroom: the fact that the organization opens out onto the world. Few organizations are as externally focused as newspapers. By looking outward, newspapers can often avoid forms of stagnation that arise through the narrow pursuit of organizational goals. The organization that hired Lisa was much more focused on documenting the goings-on of a very narrow place, and unfortunately for Lisa, there just wasn't that much going on.

Journalists are also keenly aware that their skills have been developed within a narrow purpose. Some former journalists wish that their peers would realize how general their skills actually are, but most believe themselves to have learned a relatively specific craft that is not easily converted to other purposes. Journalists choose journalism because they love it, and because they identify with the work and do not wish to work anywhere else. Because their choices had negative consequences from the start, they are not quickly unmade amidst economic adversity.

Why Journalists Choose Journalism: Inertia

The collapse of an employer would seem to severely jeopardize one's career inertia, but there are still forces of momentum in continue after one's employer is disbanded, some of which are unique to the failure layoff scenario. Firm closures are public events that draw internal and external social support. After failure, interpersonal networks present expertise-appropriate opportunities to individuals and prior job market experience continues to be the go-to plan for finding the next job. Moreover, managers

often take responsibility for helping to place their employees, reaching into their own occupational networks to achieve this goal.

Some editors receive phone calls from those who are hiring asking if any of their former employees have yet to find jobs. Many social networks are organized on email lists or through online social networking sites like Facebook.com, and these outlets are used continually to share information about job opportunities.

Though the inertia does keep journalists within their careers to facilitate opportunities for the transfer of routines and norms, inertia has a more insidious implication for survivors of failure. Once an employee has been laid off amidst economic hardship, any new job that she or he might find is precarious relative to the current employees of the firm. Recent hires are easily discharged without disrupting the rest of the organization, and several study participants have been laid off two or more times after their first dismissal. Though inertia does keep pulling these journalists back in, they are not irrational people, and given enough hardship within journalism, alternative careers become increasingly appealing.

Receptiveness

The final step in the preservation of routines and norms is the receptiveness of the receiving organization. Many of the journalists who have moved outside of their field have been surprised at how applicable their skills were and about the receptiveness of their colleagues to trying to do things the way that a journalist would. Sometimes, that logic provides a lens that organizations lack.

Lisa: My journalism skills have played a role in me being successful at this job. The way I did it was that - they wanted to tell the story of how we're using

money. [Our budget] is a somewhat unpopular program, because people don't think it really resulted in jobs and what-not. So then, "If you want to prove that you're hiring people, why don't you allow me to do a profile, like I would for the National, of every single person that we hire?" And I knew their stories would be compelling. So, I reached out to all the new hires. A fifth of them said, "sure." So I ended up doing about 20 - 21 of those, and the first woman was exactly what I thought. She was, like, "Yeah, I got laid off more than a year ago. I was five months pregnant. It was a total panic in my family. You know, finally, I was able to find an art job [here].... It works on my journalism skills - my "duh," common sense skills - "just profile the people - worked here, in area where they would never do that. Because they don't write about people here. They write about science, and science is really boring. That's what I told them when they hired me. I was like, "no one gives a shit about your science." Who are the people you're helping? What does your research do? If you're looking up a proton's butt for a picture of, you know, whatever.It doesn't matter, unless you can use that to cure cancer. Connect the dots into a way people will care, because the average person doesn't know So I've just used [the] journalism idea of writing about people and being very practical here, and it has worked.

Lisa's enduring pragmatism painted a portrait of a complex organization that was so much more personal and accessible than any expert could have done. Her work gained national attention, and fostered a real appreciation among her colleagues for her craft. Receptiveness may depend upon organizational rank at hiring, on persuasion, and on the strength of the existing normative and productive process.

Opportunity, choice, inertia, and receptiveness are basic features of the post-failure transition. Based upon the availability of jobs, the motivations of survivors, and the receptiveness of receiving organizations, the opportunities for post-failure transfers take shape.

Key Conclusions: Persistence and Selection

By surveying the diverse processes involved in transferring norms and routines from failed firms, we can get a sense of the adaptive process resulting from the

evolutionary selection of organizational norms and routines. Here we might distinguish two main outcomes: firm-level selection and post-failure selection.

Where persistence is unlikely, an organizational failure results in firm-level selection. For instance, high-volatility routines are selected from an industry by an organizational death, and their recovery is unlikely thereafter. If newspapers are finally destroyed, some of their important functions like training journalists and imposing norms onto news making through tight editorial oversight might be lost forever. Smaller organizations may eventually achieve some of this training, but many lack the resources to do so at a sufficient scale for it to make a difference.

When persistence of norms and routines is possible, then secondary selection processes become important. First, survivors tend to scrutinize modifications to their aesthetic and pragmatic norms. If survivors believe that they know a better way to do something and that a norm will improve an organization, they are likely to attempt to impose it, providing a positive selection criteria to norms and related routines. Moreover, justice norms determine how journalists want to work and where they're willing to work, encouraging individuals to move routines and norms into normatively appropriate environments. Similarly, causal attributions of failure constitute critical reflections upon organizational performance that stand to improve organizational routines provided that the former employee is able to make sense of the failure in a way that relates the right routines and norms to organizational underperformance.

Are organizational failures selection events in the evolutionary sense? To a degree. Yes, but they are incomplete. Post-failure organizing provides a platform for the survival of key organizational resources that might otherwise be conceived as “selected.”

I began by asking whether organizations survive failure, and if so how the entities connect, a question that is much larger than the details of norms and routines in newspapers. I believe the process of post-failure organizing demonstrates that established norms and routines are not obliterated outright by organizational failure and that what follows next is more complex and partial than either survival or failure.

The post-failure entrepreneurial projects have special properties that are unlike other new organizations. They have better access to sources, venues, and a capacity to scoop other media outlets on major stories. Because these outlets can write in a sophisticated way from the start, and they have access to important people, they are fairly legitimate from a young age, which is an interesting insight from the perspective of population ecology and institutional theory.

Beyond the post-failure aspects of this chapter, the observational setting revealed some interesting features of both norms and routines that may be worthwhile in other research contexts. The motivational core of social norms varies, and the distinction between aesthetic, pragmatic, and justice-oriented norms is likely to be applicable to a much wider setting than newspapers.

The chapter also contributes a new conception of routines based upon their volatility. Routines have already been distinguished based upon whether they are transferable or not, but volatility seeks to characterize the essence of what makes routines

difficult to transfer: the energy necessary to keep them alive. The more energy required to sustain a routine based upon the complexity of the different people and processes that must be engaged, the less transferrable that routine will be.

The next chapter considers related issues in a second industry, investment banks. Though the sample is smaller, it provides an interesting counter-example to the newspaper setting. While norms bind journalists together, they often push people away from investment banks and inspire the emergence of other organizations.

CHAPTER FOUR:

POST-FAILURE CONTINUITY IN INVESTMENT BANKS

Introduction

This chapter begins with the question of organizational adaptation. In the previous chapter, several of the pathways involved in the preservation of norms and routines proved to offer effective selection criteria: they made it likely that the surviving norms and routines would be somewhat better than those that had failed at a sub-organizational level. This chapter will again document the selection process, but findings follow a very different narrative. Here the norms of investment banks meet with wide distaste, and many choose not to work in the industry because of its norms, yet the norms do not yield to the force of exit. This chapter demonstrates some of the mechanisms through which unfavorable norms persist. It also takes up a second topic that the previous chapter left unsettled: how exactly do routines and norms survive failure? To this end, specific examples of routines and norms demonstrate firm legacies, documenting the process through which norms and routines are habituated into employees and teams.

Method

The first issue confronted in the study of investment banks relates to the specification of the activities and services provided in diversified and complex organizations. Rather than seeking to fix a definition of an evolving organizational field, I aim to track the career paths of a specific subset of employees within that field. While it is challenging to characterize the entirety of large and complex organizations that provide diverse services to diverse clientele, it is somewhat easier to take individual employees

and their narrow job tasks as instances of larger organizational processes. A disaggregation of this sort would be less appropriate within newspapers because of the importance of the specific purpose of those firms, but the diversity of investment banks makes disaggregation both appropriate and necessary. Given the diversity of roles within investment banks, it proved impossible to isolate a single task-group within multiple banks. Instead, I sampled from multiple sub-specialties, almost all of which were employed at one of two large organizations, Global Investment and Capital Investment. Three methodological notes are necessary as preliminaries.

First, as with newspapers, pseudonyms have been used to de-identify all firms and study participants. In such a small industry saturated with journalistic accounts, the goal of confidentiality may seem futile, and while I have changed some basic features of the account to create ambiguity around which of the several bankrupted entities is subject to the analysis, an industry insider is likely to be able to discern the organization's name through some of the defining norms and values of that organization. The conundrum is a serious one, for I have set out to convince the reader that some of what is distinctive about an organization is carried through the careers of those who inhabit these firms, and in order to do so I must explain distinguishing features that would help a reader to identify a firm despite the use of a pseudonym. Because the conundrum admits of no simple solution, responses are often cited in a way that is intentionally vague about which respondent provided a given insight. This is meant to enhance the protection of study participants so that any person who could identify someone from his or her organizational position and career trajectory could not discern that person's private perceptions about his

or her career, occupational struggles, and organizational frustrations. The study participants were informed of these risks before they participated, but it is nonetheless incumbent upon the researcher to do what he or she can to protect confidentiality as much as is possible.

The use of pseudonyms becomes increasingly important in the age of searchable online information. The simplest protection that a pseudonym provides to a study participant is the assurance that an online search will not immediately uncover the participant's private contribution to research. The possibility of such a search constitutes a much larger intrusion into the privacy of the participant than the accidental identification of a participant by a person whose interest in the subject brought them to the text. The use of pseudonyms was a basic expectation of all investment bank participants, but the same practice was confusing to many journalists who would prefer to have their stories told with the names and facts intact.

The second methodological note concerns accrual. Contacting investment bankers was difficult from the start, and grew more so over time. Thus the sample of bankers is smaller than the sample of journalists, and sixteen respondents provide the data for this chapter. Certain aspects of the transition, particularly post-failure entrepreneurship, are rare enough to be unobservable in a sample of this size. For a study of post-failure entrepreneurship, a larger or more focused sample would be necessary. Because of the sample limitations, much of the study is focused on a single firm, Global Investment, and its various post-failure progeny. While the newspaper sample provided more diversity in firm trajectories by focusing on four firms, the examination of careers within Global

Investment provides a more in-depth look at the divergent fates of failure where the entity itself experiences an incomplete preservation.

As a third methodological note, the present analysis takes this overall setting as exogenous to the actions of its individual participants. It does not judge the role of bankers and their banks in the financial collapse and the economic repercussions that ensued, nor does it attempt to determine the counter-historical possibilities of how the industry would have changed without the intervention. The position is methodological rather than political.

Rather than attempting to evaluate bankers and their conduct from some external lens, it is quite interesting to focus on the internal evaluations. These will be distinguished between two sets. First, I will focus on the sources of frustration for bankers, some of which led study participants to leave the industry. This begins with observations of why they leave to demonstrate, in turn, some of the organizing norms within banking, and some of what banking lacks. The second section documents three routines that persisted after investment banks failed. The third section specifies the mechanisms through which this persistence occurs as continuity processes and contrasts these processes with continuity processes in newspapers. The final section examines the organizational processes for post-failure organizing in investment banks.

Banks as Structure and Process

The economic crisis of late 2008 involved an intense spate of organizational collapses among some of the largest and most well regarded investment banks. Layoffs became common in an industry where human capital is the coin of the realm, and

organizations changed shape through acquisitions and failures. The Troubled Asset Relief Program averted many outright failures that might otherwise have occurred by sustaining insolvent organizations, adding further complexity to the process of post-failure organizing. In this section, I document some of the processes involved in banking. All information, unless otherwise cited, draws upon detailed descriptions of banking provided by study participants in qualitative interviews.

Investment banks are unlike traditional retail banks. They do not hold deposits or maintain accounts. Instead, they perform a pair of sometimes conflicting roles in service of capital. As an advisor, investment banks provide clients with information and advice on how to approach various financial decisions, including the sale of stock and bonds, the processing of international transactions, the coordination of mergers and acquisitions, and the process of dissolution or distressed acquisition. Investment banks also serve as dealers, buying assets from one client in order to sell them to another. This may include stocks, bonds, fixed income, and other financial instruments, most of which were fairly mundane until quite recently, when exotic financial instruments like derivatives and mortgage-backed securities became important business activities for investment banks. Regulatory changes exacerbate the emergent complexity, making it even more difficult to characterize what investment banks are and what they do. In fact, some authors have proposed a new category:

Large, complex financial institutions (LCFIs)... [are] financial intermediaries engaged in some combination of commercial banking, investment banking, asset management, and insurance, whose failure poses a systemic risk or externality to the financial system as a whole. (Saunders, Smith, and Walter 2009: 139)

The breadth of purpose of these firms has become a very significant issue in making sense of the bailout decisions, a topic revisited in the concluding chapter.

Though many different activities occur within investment banks and large, complex financial institutions, they share a number of characteristics that draw people into them and expel them in equal measure. The next section describes the sources of exit among investment bankers. Later sections demonstrate some of the reasons why exit does not change the norms of practice within the industry.

Norms at Work: Why Bankers Quit Banking

The people who leave banking typically leave because of the norms. They leave because they do not want to adhere to the intense work ethic that would hold them captive in an office late into the night and make any social plans secondary to last-minute projects. They leave because banks lack a norm of purpose, like the calling that draws journalists, and they want to do something that is more meaningful by pursuing a personal project or passion. They leave because banks maintain norms of incivility and cutthroat competition that undermine collaboration. These dominant motives are not universally felt, but one or more of them applies to every former banker whom I interviewed. Nonetheless, the fact that norms motivate exit should not be viewed as an indication that former bankers regret their experience. Most prize the experience that they've had and speak highly of their former colleagues. It would not be difficult to extend these departure motives into a broader critique of the industry, but former bankers rarely do so. Their narrative describes a mismatch between personal motivations and organizational norms. Less often do they judge the industry for its norms.

In this section I will describe a few of the main norms that former bankers invoke in their descriptions of why they left investment banking. These are work intensity, motivation, and incivility. Later, I will note other norms that are salient within the industry, but not typically articulated as a reason for departure.

Too Much Work

Investment banks are intensive work cultures: the dominance of work over other life priorities is a basic feature of these firms. Former bankers note the difference between their current work environments and the work that they did at a bank in terms of the allocation of time. They are surprised that their colleagues outside the industry go home from work on a daily basis before six and rarely work weekends. Here, norms and routines overlap once again. Global Investment provided a car service for its staff when they worked late. Global also offered a special food service that charged the company directly so that employees were well fed as they worked late into the night. These are routines that establish the practices around constant work.

The dominance of the organization within the lives of the employees is therefore nearly complete, and while Global Investment does not quite meet Goffman's definition of a "total institution," it is not unreasonable to compare investment banks with boarding schools, army barracks and work camps that subsume nearly every aspect of the person's life into the same entity (Goffman 1961). What is less clear about investment banks as total institutions is whether they are sufficiently cut off from outside interaction. Goffman allows for this in recognizing that the serving staff of a mansion may be wholly institutionalized while the other household members are not. Relative to managing

directors and senior staff, employees below the VP level have relatively less external interaction through their work. Though many positions are meant to open onto the wider financial world or an industry in a way that is not so different from what newspapers are meant to do, the intense internal competition, high expectations of work product quality, and long hours are not necessarily conducive to a broad external perspective. Very few analysts and even fewer traders and bankers have access to a breadth of information that would give them experience akin to the newsroom.

Total institutionalization may not be necessary to impose a work ethic upon employees, but it helps. Because employees are expected to be available at all times, and because amenities are provided to ensure this end, there are few acceptable excuses for not working. Most people put their relationships on hold in service of career objectives.

Rebecca spent her entire first year working from 7 AM until 11 PM, and continued that level of commitment for some time afterwards. Even after she got better at managing her time, the work still got in the way of other parts of life:

Rebecca (quit Global before the bankruptcy): Forget finding a husband. that was definitely not going to happen. That was so not part of the equation....I got married at 39. I was like an old fart. I was the Last of The Mohicans. [As an analyst] I was on the road four days a week. The pace was brutal.... I don't know how you can be working 80 or 90 hours a week and have a relationship. At least for me, I couldn't do it. I know there are people who do it, not me. I have to say, when I left [investment banking] my relationship with my husband improved. It wasn't like I was waiting on him hand and foot, but we just had more time for each other, and I wasn't exhausted all the time. [While working in banking] I'd be cranky. I'd be exhausted. I wanted to sleep. Anyway, my relationship definitely improved when I was able to slow down a little bit, [and] smell the roses.”

For Rebecca and others, time management skills learned as a junior associate made the work more manageable, but only as a matter of degree. Even though all bankers

experienced the burdens of an overwhelming workload, a few respondents noted the special burden that the banking lifestyle placed upon women.

Adam (Interned at Global just before the bankruptcy): I guess it was disheartening to see the disparate experience between men and women in banking. There's only one managing director I knew of that was a woman. And, she did not have any kids, no family, kind of like work is her life, and it was a weird dynamic to think that that it was a ceiling. It's just that women have to decide about having families or not, and guys aren't expected to have to make that choice between family and a career.

It isn't just life outside of the firm that is disrupted by the work intensity, it is life within the firm as well. Socialization is impossible when there isn't enough slack (Hirschman 1970) for interpersonal exchange.

George (a former consultant was laid off by Global): The thing with the trading floor... it was awkward at times. Because you would meet someone, let's say, out for a drink, and you'd bump into someone that you see on the trading floor, and you don't even know his name. And you're looking at this guy's face for three hours a day. [laughs]... You sit at the same place all the time. You have your own desk. It's an open plan office, and, from the moment you go 'til the moment you leave you just work. You don't stand up and walk around, do lunches, and get coffees. So, immediately, that means that you know the people that you work with, and, apart from that, it's very hard to meet other people.

The intensity of work becomes an issue in each of the three key norms identified as reasons for leaving the industry. An overwhelming workload is linked with the incentives of the organization and with the manifest incivility within the workplace (see below), and all three are related to employees leaving the industry.

Some of those who leave the industry are driven by a moment of catharsis in the wake of failure. Being laid off forces some former employees to reevaluate their careers and to chart a new course. George had a background in management consulting, but he sought an MBA in order to move into finance. After completing an MBA, he got a job at

Global at a trading desk, and when Global collapsed he decided to change his industry and location in search of a different life:

George: I decided that I was going to move somewhere - first of all, I was thinking about changing industry and going back to consulting. And, also, I wanted to move somewhere in a country or a city where people may not earn as much, but the work-life balance was much better. So it was more like - in order to take perspective on how you're doing in life, you know, you have to take a step back and see if things are going well, if things are not going so well, and, actually, what's truly important to you, because it was a good opportunity to start from scratch. [if I hadn't been laid off] I think I wouldn't have realized all the negative aspects as easily as I did - as clearly as I did - after the collapse of Global. It's the same thing as - when you work within a group of people, you tend to lose context after a while. So, I think the more I stayed at Global, the more likely it would be that I would stay in Global for the long term - or in the industry for the long term. So, I decided I would move to [another country], and I would go back to consulting or private equity. Because I have more experience there, making it easier for me to find a job - and, also, I started to appreciate things in consulting that I didn't appreciate before, having worked in another industry.

The abruptness of the transition from the failed firm serves as inspiration for post-failure career changes.

Though the work in banking requires long hours, the effort is often undertaken on a relatively short-term basis. Many junior employees do not intend to stay in investment banks beyond a few years of training. They wish to pay their dues and learn the ropes before moving to other firms that will value their experience highly, but will have more reasonable expectations.

When asked what they took away from banks, former bankers asserted work ethic as a key part of their occupational inheritance. As one former banker explains:

Rob (laid off by Global, moved to a job in environmental engineering): I've noticed that I have a willingness to work a little bit harder and stay a little bit longer than some of the other people.... In terms of the other lower level people that I work with, I guess I definitely see that my work ethic and my willingness to help on other projects is definitely a little bit higher. I guess what I like about [working in an engineering firm] is that people are more willing to just hang out

and talk to you and see how your weekend was and things like that, whereas at Global Investment I did that with my friends in my analyst class, but the kind of people that I worked with and the people above me, every morning you came in, you sat down, you got started working.... We talked a little bit, but not that much, which maybe would have come over time, but it really didn't feel like a very nice working environment.

Other respondents echoed Rob's sentiments, saying that they work harder than their non-banking peers, and that they feel comfortable doing so because they learned to work even harder at a bank.

Work ethic provides an interesting example of the social and individual process through which occupational norms become habituated and internalized. When junior associates join banks, they have already been made aware of the level of commitment involved, and they make all of their friends and families aware as well. Others may not understand, or may even object to how much bankers are made to work, but the egocentric network of the banker necessarily adjusts their expectations and comes to realize how fickle the banker's availability will be. A last-minute request from a manager can keep a junior associate working past midnight, and the associate's friends learn to expect this. Those friendships that are founded upon an expectation of availability and following through on commitments are unlikely to survive, and the remaining friends are the ones who accept the terms of that person's occupational commitments. Thus, when we say that a banker has "internalized" a work ethic, the process is not purely individualistic. The banker's work ethic depends upon the patience of his or her peers, upon choosing to live close enough to work to be available for a job, and upon the other commitments that she may have limited outside of work. It is an ongoing process of socialization that is maintained through interactions with others whose expectations must

be established and maintained. The process of internalization, as conceived here, is akin to Bourdieu's concept of *habitus*. Bourdieu describes habitus as, "systems of durable, transposable dispositions... the strategy-generating principle enabling agents to cope with unforeseen and ever-changing situations. [Habitus is] determined by the past conditions... the actual outcome of identical or interchangeable past practices" (Bourdieu 1977: 52-53). This project seeks transposable dispositions from failed firms and does so through the concepts of norms and routines.

Work ethic is one such transposable disposition. The organizational context sufficiently occupies a person's time and attention to impose a work-dominated "ethic." This dominance can displace pursuits that would otherwise vie for an employee's attention. Among the former bankers whom I interviewed, banking was replaced by a new focused activity rather than a diversity of pursuits. An actor and a musician both believed that their single-mindedness distinguished them from their competitors. Careerist banking transferred to careerist art through a dispositional intensity. While it may not be possible to conclusively reject the alternative explanation that individual characteristics determine work ethic that is then selected by banks through hiring practices, it is clear that former bankers view their work ethic as portable and a byproduct of career experience. Most can imagine an alternative career path that would not have taught the lessons of diligence learned in banks. Though these individuals attended competitive colleges and have been working hard throughout their lives, banking seems to take this to a new level with lasting effects. So, while reasons to leave banking include

the time commitment to work, work ethic is also a durable byproduct of banking experience, imprinted on the behavior of the former banker.

Why Bother? Meaning, Money, and Motivation

Investment bankers tend to be highly compensated for the work that they do, though many do not feel highly compensated because their social comparisons are focused on other bankers, a point that is sometimes acknowledged:

Rebecca: They weren't paying me a lot of money, relatively. I mean saying that about Wall Street these days, somebody on Main Street is going to come skewer me. But they weren't paying me a lot of money.

The real issue with money isn't the cash value itself, but the relative status and respect of the positions that are associated with making more money. When Rebecca became frustrated that Global was not finding her a position that would respect her experience in the industry, she added an explicit criterion that unless they found her a position that paid more than a certain dollar amount, she would quit, which she eventually did:

Rebecca: It was really about being stimulated and interested in what I was doing. But to explain, the reason I put those criteria out there was not because I wanted to make more money, I mean sure, I'll make more money, I'm happy to, no one works on Wall Street for their health. It was really to make people say, 'Oh, okay, we can't be thinking about her at this level, we've got to be thinking about her at a much higher level.' But it was not because I need to get paid more.

So, compensation, status, and job tasks are tightly intertwined. That can make it difficult for outsiders like Rebecca to make inroads later in their careers, and Global Investment career trajectories are often described as "up or out" where the hierarchy is filled with the exceptions, the people who stayed more than a few years.

Among junior employees at banks, money is also a criterion, but the symbolic meaning of the job remains important.

Adam: I can tell that investment banking for [some people] didn't really juice them that much, but they were doing it because there is a pressure at the ivy leagues for status. If you're in investment banking it is like going to an ivy-league school. You don't have to explain yourself. "What do you do? You're an investment banker? Oh, okay." [From the job] I assume you are a successful person, [that] you're going to have a great life. People get used to that once you go [to a] better-rated school.... People don't know at 22 what they really want to do. They do know that consulting and investment banking are very high-paying jobs. They are stressful, but you're given a lot of responsibility quickly, and you really got to fight for yourself. It's competitive.

In Adam's explanation we can see the same logic that leads high school graduates to U.S. News and World Report seeking the highest status school where they can gain admission. The logic is recycled in later career decisions as a "strategy-generating principle" in Bourdieu's words. This is the *habitus* of an educated elite whose human capital must be retested and proven throughout their early careers.

The norms of compensation, competition, and job mobility are tightly coupled and extremely salient within the two banks studied. And some participants found these motivational norms to be explicit and destructive to other interests within the firm:

George: It's very clear. People at Global were trying to make money, and that's the goal. There's no other. I don't really see any other. [The goal] was not to change the world. It was not Schumpeterian efficiency, or whichever economist it was. Anyway, it was not like the view that says that the capitalist allocates capital more efficiently in the economy and drives the world forward at all. They were in it for the money, and that's it. And, also, you could see that, in terms of loyalty to the employer, that was very, very low. And that was something that shocked me, when I first started looking into sales and trading. [I] would go to recruiting and guys would take [me] on the side and say, "Okay, listen. Dude, I know you're a great guy and I like you. So, let me be honest with you: working on the trading floor is like working for a sports team. I mean, you just go to whoever pays the highest price. And don't think about loyalty because you're gonna get screwed." I mean, these were their exact words. And they came from the mouths of so many people, in so many different banks, including Global.

[In consulting firms] yes, of course, you know, people are very money driven. You work late hours, and you do want to get compensated for that. But... people [in consulting] want to change the way business is done. And, as idealistic as this

may sound, there's still some people out there that do want to change businesses and move businesses forward, and make them run better. They do get a kick out of it. And seeing people at [my consulting firm] - this is not necessarily the best example, because it's known for its strong culture - but I've seen people here that, they absolutely adore the company. Something I didn't see at Global. I mean, here, there are people who actually love [the firm].

Part of George's criticism derives from considerations of organizational culture and loyalty, which he finds sorely lacking in the industry. But nested within this complaint is a concern about the meaning of the work itself. He explains this further:

George: [In banking] you're dealing with numbers all the time. There's no tangible context. It removes you from the whole process, so, basically, you don't know exactly what you're doing. It can't give the sense of purpose that you have in consulting - where you go into a company, and you try to change the company. [At Global] I was just seeing loads of zeroes in front of me in the computer, and I was just trying to make some money. Now, whether this was good or not - whether this was for a pension fund, or a hedge fund - didn't really matter to me. It didn't really matter to people. It was all about a target. [You] want to hit that target, and you just do whatever you can.

The construal of meaning is a complex social process that is generally underemphasized within banks because the income levels generated afford banks the luxury of ignoring other considerations. Rather than focusing on some general social value or worth of work, banks are often able to define very specific contribution-driven compensation schemes.

Bank compensation tends to be performance driven, and bonuses comprise a significant portion of annual incomes. Because of this, bankers time their career transitions and job mobility with bonus schedules. Post-bonus departures are one of many signals that demonstrate the priorities of investment bankers in how they choose where to work (as George's informants explained, "switching teams."). Decisions are not without tradeoffs, but the level of compensation is a significant factor in mobility decisions.

Most occupational settings present a complex motivational structure. Newspapers, for instance, reward their journalists with compensation, the industry rewards journalists with awards, the readers reward journalists with positive feedback and gratitude, and many journalists find intrinsic motivation in the tasks of researching and writing. Investment banking motivations are similarly complex. The value proposition for working in an investment bank as a junior analyst or in a similarly subordinate position is transitional. People are in banks in order to have been in banks. They know that employers will value the experience and that two years at an investment bank will open doors to many other opportunities within the financial services industry and elsewhere. The careerist motives of junior employees provide a very important labor input in larger banks, and connections elsewhere in the industry after the junior employees move on. These motives also shape the demographics of investment banks, which tend to have a disproportionate mass of young and prestigiously educated employees.

The relatively negative accounts of the culture of investment banks are tempered by the accounts of people who have spent significant portions of their careers within the industry. Among the five interviewees whose careers spanned more than five years within investment banking and analysis, all five of them were relatively positive about the industry as a whole. All five raised specific issues with their former employers, with varying degrees of frustration.

There are intrinsic motives for banking: many bankers find their colleagues to be smart and find the work to be challenging with real stakes and immediate verifiable results. Particularly in trading and analysis, performance can be measured relatively

quickly based upon results. Of course, performance cannot, in fact, be quickly measured, as will be discussed below. A classic problem in investment is the delayed nature of realizing underperformance. The same strategy may appear to make money for years and then may lose money in equal or greater measure. It is very difficult to differentiate between skillful investment and dumb luck, but investment managers are often in denial of the luck involved in their own success (Tyszka and Zielonka 2002). Though chance determines many “successes” in finance, the objective nature of the successes make extrinsic motivations seem more meaningful and less political.

The work is important. By finding ways to provide capital to firms, investment banks make it possible for companies to grow and to develop over time. Investment bankers get to influence these outcomes. However, it is sometimes hard to notice the whispers of intrinsic motives amidst the vociferous attention to extrinsic motivation in the form of compensation. A substantial body of research in social psychology observes that extrinsic motivations tend to drown out intrinsic motivations (Deci, Koestner, and Ryan 1999), and this is almost certainly the case in investment banks. Compensation was an important point in every interview I conducted, though the interview questions focused upon norms in banking without reference to motivation or compensation.

Having given some of the strongest explanatory narratives that I can discern for why banking is worthwhile, these factors are not sufficient to overcome the social understanding of banking. The bankers whom I interviewed had mixed experiences, and some raised significant doubts about whether the work that they were doing at the bank

was worthwhile or meaningful. For them, one of the best reasons to quit banking is to do something else.

The experience of meaning in work illustrates the deeply subjective nature of meaning construction. Objectively, investment banking jobs have nearly all of the criteria articulated by normative theorists in defense of meaningful work (1998). Bowie lists six characteristics of meaningful work:

1. Meaningful work is work that is freely entered into.
2. Meaningful work allows the worker to exercise her autonomy and independence.
3. Meaningful work enables the worker to develop her rational capacities.
4. Meaningful work provides a wage sufficient for physical welfare.
5. Meaningful work supports the moral development of employees.
6. Meaningful work is not paternalistic in the sense of interfering with the workers' conception of how she wishes to obtain happiness (Bowie, 1998: 1083).

Of these, the first, third, and fourth criteria are certainly fulfilled through work in investment banking. Whether investment banking allows autonomous action, moral development, and freedom to conceive of happiness without interference is less clear, but any restrictions of these sorts are implicit rather than explicit within the normative structure of banking organizations. And if investment banks fail to encourage a critical inquiry within the nature of the work itself, they share this characteristic with many other organizations.

What is interesting, however, is that banks do not strongly emphasize the sense of meaning that is implicit within the work that banks do. Investment banks have not constructed a narrative of meaning for their employees, as providers of “dirty work” have been shown to do (Ashforth and Kreiner 1999). It seems plausible that the levels of compensation and occupational status create a morally stunted sense of worth in the investment banking organization and its employees. Emergent stigma associated with

banks and their behavior may yet produce more elaborate defensive narratives and processes of organizational reflection, but these remain underdeveloped. It might also be that transience and wealth generation create surface narratives that are sufficiently salient to marginalize deeper questions of worth and value.

Some of the construction of meaning can happen post-mortem, after the firm fails. And this process is a significant consideration for many survivors of organizational failure. George's catharsis provides an example of one post-mortem sensemaking project that ended with a negative evaluation of the larger organization and its objectives.

What can be most difficult amidst cataclysmic failure is the sudden loss of meaning where uncertainty overtakes standard operating procedures. As Weick describes:

People... act as if events cohere in time and space and that change unfolds in an orderly manner. These everyday cosmologies are subject to disruption, and when they are severely disrupted... a cosmology episode occurs.... People suddenly and deeply feel that the universe is no longer a rational, orderly system. What makes such an episode so shattering is that both the sense of what is occurring and the means to rebuild that sense collapse together. (Weick 1993: 633)

This collapse is particularly salient when it occurs amidst sudden trauma and overwhelming circumstances, as in Weick's example of the Mann Gulch fire of 1949. However, even a drawn-out process of failure and reconstruction can result in a sense of overwhelming disorder. The experience of loss and disorientation seems to differ by position within the hierarchy. George summarizes the experiences of junior bankers:

We had a very close-knit group of people that - we did our internships [as MBA students] in summer of 2006, and then we all joined. And, basically, everyone has moved on. So no one has stayed in parts of Global that are owned by Walls Investment or Open Investment. They've gone to other places. And we have kept in touch. And for some people it was actually a traumatic experience, the whole downfall. There were people that had serious problems, and they went through hard periods of depression. So, it was great to stay in touch with these people and try to support each other. And also, you know, just try to think back and have a

laugh sometimes at the frivolity of it all - the times we experienced.

[Among] junior people in my situation... it's mostly the fact that you lose your employment, and your future prospects are not looking very great... They needed people that they were important to, not really for the failure of Global, but how they dealt with the aftermath of the failure.

Some people made quick moves, so they just grabbed ahold, took it to another bank. Some of us didn't. Or some people grabbed it and took it to another awful place, like a brokerage house, and they gathered. But I don't think we were thinking about, on a big, broad level, why Global collapsed. I think, on the associate level, because, you know, [Global was] mostly screwing them out of a job. I'm sorry for the language there. You don't have any experience in - most people didn't have extensive experience in finance. So, you're basically going out there with people with many more years of experience, and you're, like, a junior guy, straight out of an MBA - and pretty expensive for people to hire - so, you know, the key thing is actually trying to get a job immediately. And, if you're so depressed, you blame the people that you worked for directly - not at the level of [the CEO].

Now, some people had big problems realizing that they were without a job, because of how the whole system works. Going to work you're told, on a daily basis, how great you are. And then, suddenly, you don't have a job, and that sucks. And some people had real issues dealing with that. You could blame [the CEO]. You can blame the equity derivative guys. You can blame the fixed income derivative guys. But, at the end of the day, you are not getting paid so much money just because you're handsome or beautiful. You're getting so much money, because there's a certain risk that you're going to lose your job at some point. Some people realized that and moved on. Some others didn't... If I think about it, it's not something that is so relevant to me, because it's not something that I did wrong. I'm going to learn from their mistakes, [but] I don't think I'm ever going to be in the position to run a bank, and then think about [whether to issue] mortgage backed securities or not. Certain things I took away, but I didn't think about it that much.

What research that exists on post failure organizing (Walsh and Bartunek In Press) is heavily oriented toward the affective processes of coping and sensemaking. Among the careerists and pragmatists of investment banks, the community-centered narrative of post-failure organizing seems inappropriate. These firms individuate into clusters that are held together by bonds formed within the firm, but lack the wherewithal to do more than find jobs within the industry. For these junior people, the organizational identity is unimportant, and the death of the firm is better understood as the death of a job and a

significant career risk. George rationalizes this through one of the basic lessons of business school, that people make tradeoffs between risk and reward, and that highly compensated people must be taking risks in order to earn their reward. Others have different ways to make sense of the system and its logic. But, at the junior level the system and larger organizational processes are only evaluated in terms of their impact upon the individual person and his or her experience of the larger entity.

In the case of newspaper failures, that disorder manifests as a career disorientation in which individuals are at a loss in the quest for a purposive organizational role. However, investment bank roles did not inspire a sense of purpose, particularly among junior associates. For them, the purpose of the role was career advancement that they sought outside of the organization, so the more salient questions pertained not to the broader purpose of the organizations, but the narrow usefulness of time within the organization for the individual's career plans. The cosmology episode (Weick 1993: 633) was not the insolvency of banks and their financial misrepresentations, it was the narrow uncertainty about whether the personal abuse that they were experiencing would offer the rewards that justify the discomfort.

In contrast to this, more senior people struggle much more with the entity and its meaning. A senior Global Investment employee explains her experience talking to those who have survived the Global collapse and continue to work together:

People lost a great deal of money, they were hurt personally, they lost clients, and collective reputation. So, it was real and palpable. To say, it is in your head would be ridiculous. I wanted to make sure that people understood that I understood that it was real. There was a bit of venting, and I was not offended by that. It is like the stages of grief. The first stage is, "I am mad as hell." Those who suffered personal financial repercussions are mad as hell that management allowed it to happen, that

government, or that mainstream allowed it to happen. I think that the characterization of this as an elite problem serves this country poorly. So for the managers, that is a loss of good will that was established by the “integration” of Walls Investment with Global Investment. I should say that the broker-dealers were never integrated, but the organizations were merged. So the loss of good will is a natural consequence of the anger. With two or three more books on this, we'll get past the anger and get to the reconciliation phase of grief and loss. I miss my team terribly. They were all really able professionals, and I miss working with them and the give and take with them. I miss the sense of tenure that I had personally. I feel a loss for the equity and hard work that I built over the years... I worked 70 or 80 hours per week. All of the senior management did. So from a personal level, I miss the ability to use my full bandwidth. I had a job that had a lot of components to it. I'm happy to be doing a job that is diminished, but is the one that I liked the best. If you're going to be working with less, at least it should be the less that you like. I'm sure that many people miss not knowing who does what. There is a learning curve. Who do you have to go to get a decision? It is all time consuming, and it is all nerve wracking. This is how I used to present the issues that would lead one to make a decision, and the new one wants it presented a different way.

Change is debilitating. We've all internalized that change is renewal, that it is liberating, but it can be debilitating because you have to start everything new. You used to know who was in the elevator, and how to say hello to them, to ask about their children, and their partners, and their parents. It can be debilitating. Everyone who has moved away has to embrace this. And many colleagues are still having a great deal of trouble getting jobs, and that is disconcerting to people who felt responsible for others' careers and their well being. All of it is jarring to say the least. It is a sort of tsunami. A whole community was hit by a 300 foot wall of water while sun bathing on the beach. I believe that the whole industry is going to reinvent itself, and that the big have consolidated to make room for the little. There is going to be a whole new generation of, depending on what the government does, niche growing to bigger.

Over the course of my career people have said to me, “Why don't you go into business for yourself?” And, I would think to myself, well, the day before yesterday we had a problem in the middle of the night, and we had someone who solved that problem before everyone else woke up in the morning. When there is a powerful and resource filled institution, it is indeed a powerful thing. Why is that necessary? Because I believe that the required pace of business fostered by technology, is almost spinning out of control, out of the capability of the small, unless we hit the pause button. Years ago someone wrote a piece in the NYT about “The End of Deliberate Thought.” about the fax machine. The fax machine itself says, “Hurry up.” That was 20 years ago. Now think about it. The need to have these massive resources is going to keep the small from flourishing. The administration says that the engine of our economy is the small businessman, but that is delusional. There is no way for them to compete.

The other thing that has not been addressed in any of this post-mortem, is the role of government in causing this calamity. The government pushes home ownership. The consequence has been the absence of regulation. If you really want to go back to the step off the curb, you would say it is the assertion of home ownership as an inalienable right. We're all phobic about inflation, but there is inflation. This is a diatribe, but not a political one. Also, as a personal prerogative and someone who is on her feet and shouldn't be complaining at all, the moral imperative of letting some firms fail while others get billions. It is hard to get past the anger phase. 40,000. I think that they should have rescued everyone. They should have sequestered the toxic assets, and the government should have taken responsibility for allowing them to be created. The politics trumpeted rational thinking. One would hope that in a country this strong that rational thinking could be relied upon.

This senior-level narrative demonstrates a very different perspective on the organization. First, from the senior-level an organization that appears anti-social, overly work-focused, and entirely lacking on collegiality from underneath is transformed into a much different scene. Temporary ties are replaced with enduring professional relationships, norms of stewardship supplant norms of competition, and a very different organization emerges. Likewise, the post-failure rationalization is much more developed and demonstrates a much more significant sense of the organization itself as a thing of value to be lost. Whereas the junior employees lost a job, the senior employees lost an organization.

The use of these relatively long quotes illustrates the extended nature of the analysis being undertaken by employees in the post-failure perspective. Asking any employee to explain what was lost when a firm fails leads down one of these two paths, and the path seems to be determined by tenure. The narratives also illustrate the contrasting motivations and sense of meaning that employees at different levels find in the organization. Senior employees, who find more meaning in the work that they do for investment banks, have much more at stake in the organization's post-failure life. Junior

employees are more focused on the precariousness of their place within the organization and the industry.

Incivility at Work

When asked about the norms of investment banks, many bankers describe a counterproductive competitiveness that undermines relationships and collaboration. They find little help from their peers and even less from their managers. Spun favorably, the environment encourages autonomy and personal responsibility:

Rob: You have to put in your hours, people expect you to do the work and do it right the first time. I guess I learned a little bit about how to work in the real working world. Your boss doesn't want to see stupid mistakes. He doesn't care if you don't know the methodology at first, especially when you're entry level, but they care when you make dumb errors in an Excel formula or something like that. That just shows carelessness. I also learned that if you don't now how to do something, you don't go ask your boss the first time. You know what the problem is, maybe you want to try to come up with a solution yourself, so you go to your boss with a problem and solution as opposed to just a problem and he has to try to figure it out on the spot.

Junior employees learn to answer their own questions before asking for help, even if someone else could easily answer the question, they learn to figure things out independently and to not burden others unless they have to do so.

However, the unfavorable interpretation of workplace incivility is that it breeds a dysfunctional organizational culture that lacks accountability, honesty, and non-instrumental interpersonal connections. In a cutthroat corporate culture where the norm is self-promotion rather than acknowledgement of one's peers, there is simply less praise to go around, resulting in further erosion of the intrinsic motivations involved in occupational achievement.

Incivility and disrespect were central to respondent explanations of departures from investment banks. This is particularly the case with George, Rob, and Victor. George and Rob expressed distaste at the experience of working with people at Global, and were pushed out of the industry by this distaste, among other factors. Victor's situation was different. He explains:

Victor: So, one thing I actually should say is that I actually really liked Global and I would think that most of the people that worked there would really like it. . . . I think it had a very kind of unique culture and. . . it was a place that I was just proud to work. And, I would actually-I have a lot of good things to say. I was very sad like on a personal level when Global failed. Because, for one-yeah, it sucked that the Bank failed, but I just had so many friends. And I just knew so many good people at Global, it was just like man, . . . what are these people going do? These are quality people and people that I liked. So, that was tough. And. . . I know for a fact that. . . the folks from Global that went to Adant, and the folks who are now at Walls [that] there is definitely like a clash of cultures there.

In terms of me specifically, I actually found [my new employer] to be, even though I really liked Global, to be refreshing. And, one of the reasons is everyone is so nice. It's not like at Global, people weren't nice. It's just like [here] they both hire specific people. And, they place an emphasis on their culture-and, it's basically nice people. And, they're trying to hire other nice people. So, I really like that part of it. And I think actually-I think I fit in well, because I think I am pretty nice and-you know, I don't know-I'm-I'm definitely, I'm comfortable with that.

Whereas others were pushed from the organization by its anti-social norms, Victor was pulled by more positive norms that existed elsewhere. He believed that these norms originated in selection criteria employed by the firm, which Sutton calls a "no asshole rule" (2007).

George's transition went the opposite direction from Victor's. Whereas Victor was refreshed, George was shocked by the culture at Global.

George: Talking to people from consulting [after being laid off] made me realize how more cerebral they are, and how much nicer it is to work with them because they tend to be more respectful and more socially savvy than people on the

trading floor. [At Global] when you would come in in the morning, there were three people I was working very close with. One of them well known to be an awful person. I mean, he's the kind of guy that would walk in and you would say, "Good morning, how are you?" and [he would say] "Bye." Or, you know, you would talk to him and would be dismissed, he'd just make a face and start looking away. Or, another guy would be really aggressive when he talked to clients, and he would really tell people off.

Incivility occurs in many settings, and it should not have surprised George to find that people whose job requires them to persuade people to make changes that are difficult to make would behave with more social grace than people who stare at trading monitors for a living, but there are organizations that seem to encourage a more collegial atmosphere. Capital, for instance, is said to have achieved this in many work groups, whereas positive, collaborate experiences seem to have been the exception at Global rather than the rule.

Not surprisingly, those who stayed longer provided more positive accounts of the organization and its ethos of interpersonal conduct. Some of these narratives directly contradict one another. One person says that Global Investment is an organization that cares about its employees; another says that it is not. One says that Global Investment is a place where a person can get help when he or she needs it; another says that people hoard knowledge and feel put-upon when colleagues ask for help. In any large organization there will be variation between and within departments that makes individual experiences very different. One manager may treat her subordinates well and another may not. However, these experiences are often attributed to the firm itself, and are thus motivations for leaving the firm and/or industry rather than transferring internally.

At the very least, it is clear from many accounts that Global employees were very focused on their work. As Rob explains:

I guess everyone was just very focused on the job they had to do, you could also tell, obviously, people were focused on moving up the hierarchy, and how they appeared to their superiors. Obviously, when you're dealing with tens of millions of dollars, people get a little pissed off if you make mistakes, things of that nature. I never got chewed out or yelled at or anything like that, but I saw it happen, and I saw people get angry and slam phones when they made bad trades.... I'm a more laid back person than that, so it didn't fit in with my personality.

Given a salient (if controversial) observation of incivility in the workplace as perceived by employees who chose to leave the firm for a “nicer” setting, it seems likely that the departure of the employees would reinforce the stable organizational norms.

Organizational failure, however, can interrupt this process in two key respects. First, organizational failure may drive people out of the industry who have a higher tolerance for incivility or have not experienced it because of good fortune in their colleagues.

Second, organizational failure may lead individuals to a moment of pronounced self-examination that identifies conflicts that would have otherwise been subsumed into the daily grind of work responsibilities, like George’s catharsis as described above.

This section provided two examples of norms that are carried through careers despite organizational transitions: work ethic and a careerist quest for organizational status affiliations. These are each described as components of the *habitus* of investment banking. Though motivational norms drive employees away from banking, this form of exit provides little or no evidence that the norms of banking are changing. If anything, the analysis demonstrates the durability of norms within the industry. It would be interesting to know whether former bankers are viewed as abrupt and uncivil in their subsequent work contexts. Though one might posit that incivility would be likely to transfer from these firms, confirmation would require rather frank interviews with the peers of

survivors at the firms that hire them. That information is beyond the scope of the available data.

This first section gave a sense of the norms within investment banking and how they fit into career trajectories. This relationship between norm and career is very much opposite the relationship observed in newspapers. Norms hold papers together but drive banks apart, at least among junior bankers. The next section considers routines that survive organizational failure and the process involved in their preservation.

Routines That Survived

Among investment bankers who stay in the industry, and even among those who do not, key operational processes persist. There are many obvious ways in which the work continues to be similar. Specialists who know about an industry, a financial instrument, or a regulatory environment often continue to work within the same domain. Thus their information comes from the same sources, many of their contacts continue to be viable in pursuit of the same business objectives. This section illustrates continuity in three organizational routines: financial modeling, the gloss, and the use of collaborative philanthropy to build a CSR movement within a firm. All three of these routines are low-volatility routines. They do not require much energy to retain process knowledge amidst complex interactions.

Financial Modeling

The first investment bank example of a persistent routine is the use of financial models. I find that models continue to be routinely used before and after transfer, and that skepticism about the interpretations of such models is also carried among their users.

Quantitative approaches to investment have become an important part of banking. Junior associates receive crash courses in the standard program for financial modeling, Microsoft Excel. Then they are asked to put together models that indicate what assets are worth and to update these models repeatedly in the preparation for presentations to clients. Traders likewise use models in different ways depending on the assets that they are trading. Models need not be mathematically complex. For instance, one desk at Global Investment traded on the gap between the prices for acquiring firm and target firm stocks after mergers and acquisitions were announced using very simple models based upon the time value of money. Whatever their complexity, quantitative approaches to investment created a technical basis for measuring asset prices that traders widely utilize. The emergence and acceptance of these models despite their empirical shortcomings has become a subject of some fascination to researchers of social finance (MacKenzie 2006), particularly because the setting offers an important demonstration of the concept of performativity. Like Merton's notion of the self-fulfilling prophecy (Merton 1936), researchers argue that the economy has adjusted its valuations according to academic models.

The entire enterprise has created a strange ritual around the use of quantitative data in the financial services industry. On the one hand, modeling is indispensable and it contributes one of the few competencies in finance that distinguishes the field from other specialized fields that concern themselves with investment. On the other hand, models are widely dismissed by those who use them most often, and their results are questioned. The contradiction is striking. It is not unusual that a field would utilize an epistemological

paradigm for some period of time and then eventually discard it once the field learns that the results of the paradigm are not providing truthful propositions as intended. The history of science is littered with discarded epistemologies like alchemy, phrenology, and the reading of entrails. What is interesting in finance is that despite catastrophic failures in quantitative valuation using models that purportedly “measure” risk (Cook and Whitmeyer 1992; Taleb 2007), there is little indication that the paradigm has been or will soon be overturned. And while there is evidence that stock prices are not entirely random (Lo and MacKinlay 1999), it does not follow that the models utilized by junior analysts in Excel spreadsheets or the models of more serious “quants” offer sufficient certainty to move beyond the randomness critique of investment prediction.

Yet, insofar as Wall Street values certain models, their value is worthy of note within firms. The performativity of modeling may be carried to new extremes within firms that wish to take the perceptions of capital seriously. Roger was hired by a tech firm to help determine compensation. Their goal, in hiring a former Global employee, was to reward employees as the stock market would for innovative activity within the firm. Insofar as Roger accounts for basic parameters in their risk/reward benefits like cost of capital and growth opportunities, he is shepherding financial models into HR functions even further beyond their once domain-specific academic scope.

The topic of how financial models are sustained despite their frequent disappointments is worthy of a general analysis that this project and its sample cannot provide. Financial models are taught in business schools at the undergraduate and graduate levels, and junior associates are required to learn financial models regardless of

their educational backgrounds. At the same time, they learn to doubt the models, and to call their results into question. Among survivors of organizational failure, models and skepticism about them came up in two ways. First, survivors claim to have been inoculated against the influence of models. One respondent said that he distrusts the reports produced by banks like the one that used to employ him, and would rather read an SEC filing to get a real sense of an asset. Second, models come up as false hopes of a rigorous career. Two respondents said that they had come to investment for its quantitative aspects and left for the same reason. So, while financial models continue to be used by survivors of failed investment banks, the use comes with an increased skepticism. The skepticism extends to much of the work that banks do.

Though modeling and its skepticism proved to be persistent within the occupations of bankers who survived failure, these routines are likely to be widely distributed in the financial services industry. The more stringent proof of post-failure continuity requires a demonstration of continuity in idiosyncratic organizational routines. We need to demonstrate that the quirky aspects of a firm persist in the careers of its employees after the firm has been destroyed. To this end, I describe two routines of Global Investment, account for them as idiosyncratic to Global, and then document their transfer.

The Gloss

Appearance mattered at Global Investment. Rebecca had worked in equity research at another firm for over a decade, and subsequently left the industry. She was brought back into the firm through a special HR program at Global that was meant to

recruit women who had left Wall Street. On Rebecca's account, Global Investment had very strong norms about keeping up appearances. Rebecca quoted another late-career transplant into the firm who said, "It seems like this organization is all about the gloss, all about how everything appears to the outside." I use this term "gloss" in reference to the attention to surface details and formality in presentation. Adam paraphrased his manager saying, "You can't always be right, but you can always look like you're right."

Global was a place where a person wears a suit every day, where PowerPoint presentations were meticulously and artfully constructed to create an aura of deliberate professionalism, and where feedback from superiors was as likely to focus on form as substance. Though Rebecca was the only study participant who mentioned Global's emphasis upon the superficial as a component of why she left, every other person who I interviewed mentioned the gloss, and most argued that the gloss is part of what they took away from the place.

It is perhaps uncharitable to conceive of investment banks as finishing schools for a rising business elite, but Global seems to have served precisely this function. Several respondents described the use of formatted presentations from Global in subsequent work projects at different banks, how they maintained the font and colors though the content and firm affiliation had changed. At Global, most correspondence was standardized into some document template that was meant to communicate a certain look and feel. Given the care taken in the production of these documents, it is not surprising that former employees would wish to continue using them. Victor, who worked at Global and then moved to the buy side after completing his MBA, describes making a presentation after

Global and having a colleague from his firm identify him as a former investment banker based upon the way that he put the presentation together, a signal that he was proud to have displayed.

There is a more involved process through which former employees come to recycle the aesthetically pleasing document templates from their failed bank. I conceive of this process in four steps.

First, survivors learned at Global Investment that professionalism matters and that a key component of professionalism is appearing to be professional. This point of departure provides salience to the presentation routines embedded within the technology that is likely to increase its chances of survival. I will say more below about the norms of self-presentation at Global investment, and how we observe them. Aesthetics were also engrained within a set of workplace routines that became automatic to Global-trained employees and were exceedingly foreign to those, like Rebecca, who arrived at Global from other firms within the industry.

Second, employees learned a specific practice of using documents designed by someone else to look professional. The practice did not require that the employees learn to design documents themselves, or obtain sophisticated aesthetic sensibilities in order to evaluate what is professional. The training did not offer any of these skills to the trainee. Instead, it required the process of rote reproduction of the same aesthetic frame. In Goffman's terms, every strip of activity was translated and rekeyed in a way that was intended to be professional (Goffman 1974).

Third, when employees left Global Investment, some left of their own volition, many served their term and moved on, and many others moved on after the shaky job transition once Global went bankrupt. In order to have use of recycled PowerPoint presentations, the employees needed to acquire jobs in which these presentations mattered. Most did.

Though the fourth step is not required, it follows from the first and second. Because Global Investment employees are taught that aesthetics and professionalism are important, they expect to find these priorities intact at other firms. Shortly after being hired, two study participants describe asking their colleagues for a standard slide template and being surprised to find that no such template has been defined or that what exists is mediocre and rarely used. This revealed weak norms around the priority of using the templates that were available. So, the former Global Investment employees located presentations that they had written at Global and applied the Global Investment template to the presentation for the new organization.

Norms of self-presentation relate to various aspects of life at Global, and presentation document reuse is only one of many examples of ways in which former Global employees continue to manage impressions in their subsequent work. Former Global employees wear suits to auditions where their competitors wear skinny jeans and a t-shirt. They begin meetings by stating the purpose of the meeting. They send emails thanking people for their time after each meeting. These are norms of self-presentation that are durably drilled into Global employees.

The use of PowerPoint is a more-interesting topic than it may first appear. As with the routine use of financial models, there are those who are highly critical of PowerPoint as a means for the presentation of ideas and analysis. Because PowerPoint encourages its users to present ideas in hierarchical and summary fashion, it permits its readers to quickly skip over content (Tuft 2006). And in the presentation itself, PowerPoint enables the presenter to carefully control the flow of ideas in a way that may reduce the opportunity for conversation or critical reflection. However, most of the organizations where Global alumni work were already using PowerPoint presentations, so there is nothing distinct about the limitations of that technology within the aesthetic professionalism of Global templates.

The most troubling burdens of the gloss relate to the loss of content quality and the burden of gender. Rebecca had spent most of her career undertaking and marketing Wall Street research, and she understood the priority of appearances. However, she had serious misgivings about prioritizing a message's form above its content, as seemed to be common practice at Global. She was most disturbed by a manager of junior analysts at Global who pushed the analysts to extend themselves on their statements regarding equities. This is her description of the behavior and her response:

Rebecca: I even saw this in my own peon job, listening to [my boss] with some of these analysts and trying to shoe-horn them to a message, "well, you're not going to get on the morning call unless you can say 'x' about this stock," and I was listening to him say that, and I'd say, "[boss] for you to tell an analyst what they should be saying, you don't know their industry, they know their industry." And that drove him wild. He'd say, "Well, it's not going to sell with the sales force, and the sales force won't listen to that." But it was less about "Hey, what you're saying is interesting. How do we make it saleable?" It was all about the polish and the image and it's got to be a high-powered message at all times. But sometimes

information is not so high-powered, it's not so exciting, but it's relevant. [At Global] it's the form over the function.

In this paraphrased conversation, Rebecca illustrates the disagreement over a local organizational norm regarding the priority of managing “external” perceptions. This was apparently a serious concern of Rebecca’s manager, who offered her little or no substantive feedback. Rebecca talked about shallow feedback regarding the mispronunciation of a name during their morning research webcast. These webcasts, what used to be meetings or calls, were broadcast with live video. Rebecca, who is ten years senior to her manager, was also criticized for having a button undone on her blouse during one of these webcasts, and for “guzzling” a glass of water.

The burden of professionalism is borne unevenly in a gendered workplace, but it is interesting to note that younger employees, even men, are aware of the inequity:

Adam: [For] guys, there’s a lot of slobs you work with, but they are wearing a dress shirt with a tie, and pants... They’re still slobs, but in a suit... it seems pretty uniformed. But women's clothing is so much harder... if you look good, you look too good and too sexy. If you’re frumpy looking, that’s not good either. I saw that and I said, Oh, my God. Once again, it’s the eightieth time in my life where I have been like, I’m just happy that I’m a guy. It’s a lot simpler.

Clearly, women are exposed to a special burden within a system of professionalism that was designed around men and their suits. Rebecca’s experience of having a manager be critical of her for the way that she buttoned her shirt despite the fact that she was more than ten years older than him illustrates how these scripts of conduct displace other norms of decency. Unfortunately for Rebecca, the negative feedback about presentation made the work much less interesting, particularly because her manager refused to engage with her on substantive issues related to their work:

Interviewer: Did you get any feedback on content?

Rebecca: No. They had a way of circulating research commentary, written research commentary, and it had to be formatted a certain way, and it had to be a certain font, and it had to be some whole thing. And as a secretary, if that's what you did all the time, you did that. And in the first months, when all I was doing was answering phones and taking messages and formatting stuff, I would screw up the formatting. And the first time I sat down with [my boss], I said "Okay, I think I need to learn the processes," But the next time I said, "I think we're getting the processes down, where do we go from here?" His immediate comment to me was, "Well you haven't really learned the processes. The email you sent out with 'x' was improperly formatted and it wasn't left aligned, and the font was wrong, or the color was wrong..." and I said to him, "Okay, [boss]. Understood. I didn't do the formatting right. Apologies. Can we step back now? Let's just talk about the bigger picture." But he said, "Well, we can't really do that until you learn this."

Rebecca eventually left Global, and she is now working in an unrelated industry. The only value that she gets out of her old contacts is their willingness to come out and support her new career.

She left Global before the collapse, so her particular trajectory is not within the domain of the study. Taken in isolation, Rebecca's violations in dress, drinking, and document formatting may be interpreted as "quasi-normative errors" (Bosk 1979), mistakes of conduct that are defined by the locally legitimate authority and are only mistakes because that authority deems them so. Yet, looking more closely at her description, it is apparent that the complaint regarding her dress did not originate with the manager. The critical feedback that Rebecca received actually originated elsewhere in the organization. Her manager chose to repeat the feedback rather than buffer it, thereby implicating some additional component of the organization. If we believe the manager's report to Rebecca that the criticism originated in the audience, it strengthens the view that appearance norms are prevalent within the organization.

Other interviewees echoed the presentation norm. Art, a trader in London who worked for one of the international offices of Global Investments, described the

American management of Global as unappreciative of the organization in the UK, and as being more concerned with consistency of formatting and the standardization of the brand internationally than with the performance of the business. Similarly, Jen, who has worked as an analyst at a subsidiary of Global for the past six years, describes the organization as being “snobby and uppity” and placing undue influence on the appearance of things.

Adam also describes the power of the normative culture:

Adam: I remember one weekend I wanted to change to go from work to see a play with a girl I was seeing at the time. I wanted to put on a plaid shirt and I didn't want to change in the bathroom at the theater. So, I changed at work right at the end of the workday. I shouldn't really be stressed out, but... somebody I work with might see me in a non-suit! A shirt! Stresses like that I would say weren't a joke. I don't know if it is self-imposed or not, but people stress out about [it]. People stress about look and status and presenting themselves always in a very professional way... like, a very strong mask.

The attention to appearances that Global sustained is an example of a norm that does not seem to have fared well in the post-failure transition. While some specific technological aspects are sustained, the emphasis upon appearances seems to attenuate among the former employees of Global. Jen, for example, currently works at Walls Investments. Walls is a private wealth management company comprised of a number of portfolios, each of which operates as a semi-distinct business under the control of a portfolio manager. Walls was owned by Global until its collapse, and after some months in limbo, The Walls portfolio managers negotiated a senior debt obligation with the Global creditors in order to take control of the firm. Walls' equity research group has been hard hit by the transition. Approximately 40% of the staff has been laid off. The group has been through two research directors in the past year. The first was a transplant from Global who maintained many of its norms, but given the overall indeterminacy of the

organization, imposed relatively few goals upon the staff. The second, who was recently hired at the time of the interview, used to be a portfolio manager in “the Old Walls,” back when the firm was a privately held (as it is now). The new (“Old Walls”) director has already begun pushing back against the formality that had been the norm within Global.

Jen describes the change as follows:

We went from having a daily call in the morning with the portfolio managers, which was never well attended, to having bi-weekly calls with portfolio managers at 4:15 in the afternoon, 15 minutes after the market closes. We’ve had much better attendance from portfolio managers. Beyond these meetings, we are trying to do a lot of directed information sharing with the people who are most likely to be interested in certain information. We know which managers care about which stocks. They may not come to our meetings, and may instead just stop in or call to talk to us. We’ve been trying to do more of this. We’re just a floor apart, and we just poke our head in to share information. It seems to be working better.

Jen’s narrative demonstrates some of the work that is being done to counteract an established norm, while also providing evidence that there was a norm to be displaced. This is an example of an established norm and its eventual diminution through a post-failure trajectory. The norm survived the failure of Global, but it seems to be receding within Walls as more functionally appropriate norms emerge.

It may be worth distinguishing between the capacity to achieve an aura of polished professionalism and the practice of achieving an aura of polished professionalism. Global maintained the practice of polished professionalism as a strategic part of its routines:

George: We had to dress up every single day. And this was in contrast to most other investment banks. [The leadership] felt that every single day, you're going to war, and you have to dress to go to war. Because dressing to go to war reminds you every single moment of that day that you're there to work and work hard. These little things, this aggressiveness, well, I found it quite appealing. And you know it did work up to a point - well, at least until everything collapsed [laughs] - it worked well.

Some people self-select into that environment; they want to take themselves seriously, and Global Investment was a place to do it. However, even for those who eventually prefer a more casual atmosphere, Global prepared them to be professional when a situation demanded it. Even if Global Investment employees have since moved to organizations with more casual norms, the *habitus* of gloss remains accessible when context-appropriate.

Collaborative Philanthropy

Hours after filing for bankruptcy, senior executives at Global Investment met with the head of corporate philanthropy to see if the foundation could be saved. Global had grown a remarkable charity organization that funded projects all over the world, and executives viewed the foundation as what might be the last surviving vestige of the firm's good name. As a nonprofit organization, the foundation was partitioned from the rest of the business and its resources inaccessible to the firm's creditors. Though concern for the foundation's fate emerged quickly, the process of reorganization slowed as concern over personal liability drove several members off the foundation board. It began with well over a dozen members, but by the time that a new home for the foundation had been identified, only a third of the board remained. It was clear that the creditors of Global Investment had no claim upon the foundation, but it was unclear whether the organization should persist, and if so, how it should be organized. Global Investment had employed the foundation's administrative staff and two of them continued to manage the fund on a volunteer basis after Global entered bankruptcy. Eventually they would need to be paid for their work, but by whom? In my interviews with the former staff of the foundation,

the salient feature during this interim period was the precariousness of the situation. The foundation had grown up attached to Global, and prided itself on the level of employee contribution. This emphasis required a distinctive ethic of participatory governance that made the foundation deeply intertwined with Global's employees and managers:

Judy (moved from Global Investment with foundation to Walls Investment): Global Investment was really a model of collegiality - I'm going to sound like I drank the Kool-Aid, but I didn't: I know why we're here [in bankruptcy]- [But] we built consensus on almost everything, particularly as it related to the foundation because employees were vested in the foundation. So, I was hypersensitive to taking people's money and saying, 'See you around.' There had to be a dialogue, way beyond how most non-profits engage their supporters.

The foundation was therefore intertwined with the organization and its employees. It would seem to be fragile by the same logic, inseparable from the larger corporate body, but its value, and the value of its staff, made it possible for the foundation to be transplanted whole into another organization.

Walls Investment, a former subsidiary of Global, eventually agreed to take responsibility for the foundation. The agreement was not easy for Walls, which had shouldered significant debt to gain autonomy from Global's creditors. However, by paying half of the salaries of the foundation's small staff and agreeing to a modest \$1 million annual contribution, the Walls organization was able to rebrand the Global Investment foundation as its own. Initially, it was agreed that the foundation would carry out its funding commitments to Global grantees:

Judy: The foundation's view was that these commitments had been made, and that there was a moral imperative: if you were transferring control, you were also transferring obligations. And, Walls Investment, to its credit, absolutely embraced that. Therefore, we've continued to meet those obligations. Nothing was automatic: we still had to do our job which was, wherever we make grants, we have a thorough due diligence process to determine things as simple as, 'Have they engaged in any misappropriation or scandal? Is it well run? Is its cost of

fundraising and administration proportional to service? Are they sustainable? What happens if they don't get this money?'

In the process, Walls gained a staff of two who began to immediately reshape the foundation to fit with the Walls culture.

Judy: Walls Investment is run by a partnership committee and a board of directors. The partnership committee had vigorous discussions on whether to enable the transfer of control and to take on CSR as a business line in light of the enormous challenges that Walls Investment faced in rendering itself independent. I think that they had themselves come to some, call it, 'collective unilateral determination' on what it would be about and how it would operate. Not iron-fistedly so, but if they were going to take the time to discuss it, they evolved their thinking from 'Yes/No' to 'Yes, and here is how.' So, when I joined I was given a download of this body's opinion by the CEO. So, I said, there was nothing illogical about it, but I'd like to go around and talk to the partnership committee, the operating committee, regional heads, and to introduce myself and to engage in further dialog. It was an opportunity for a bit of venting on side track topics, but.... we came to some agreement that before we arbitrarily put some definition around this, that we would seek to build employee buy-in.

This is a fairly remarkable example of a core organizational function moving without the organizational structure in which it was embedded. CSR ought to be a classically high-volatility routine. Getting and maintaining consensus among diverse employees requires a tremendous amount of energy, but the foundation's wealth seems to have ensured its persistence as a combined entity. A closer look demonstrates that the more subtle aspects of Global's CSR persist because the specialists who run the foundation have stable routines and orientations towards their work.

The post-failure context provides the special opportunity to observe processes stripped to their barest essentials and then (sometimes) redeployed within new organizations. One might think CSR would be the least likely organizational tradition to survive the failure of a firm, particularly insofar as it is embedded deeply within an organization and its complex and idiosyncratic workforce. Moreover, the foundation is

already linked to specific funding recipients that would seem to also be inflexible. Many firms view CSR as the final topping of an organization rather than a core function. The Global Investment case calls this assumption into question, and demonstrates some of the organic value propositions for corporate philanthropy (Porter and Kramer 2002) emerge through organizational practice, and can then be transplanted to other firms through special competencies.

The basic notion of CSR as the collective activity of the people within the firm rather than as a top-level business strategy or pet project invokes a set of somewhat fluid routines. Foundation staff encourages employees to bring causes to their attention, and strive to keep employees involved in the funding process. It is this buy-in that moves the foundation into a position of status. Internal ties and competencies are certainly not the only function of the foundation's staff. They develop and sustain relationships with the wider nonprofit community in order to make determinations about which organizations ought to receive funding.

Judy: There is a due diligence process for all grant giving because... there is a negative spillover to the brand if the recipient does something that is negatively newsworthy.

Due diligence is the basic task of every funding organization, but the task has special meaning in an organization that is expected to be savvy with its management of financial resources. Investment banks like Global have professionalized their funding bodies and focused them on recipient performance measurement as a part of this larger movement.

Global Investment had a global foundation, but Walls Investment chose to focus the foundation regionally. The shift confirms the post-failure adaptation. The Global foundation funded many international projects, but the Walls foundation seeks a more

local impact in keeping with the scope of Walls employment and customer base. This is attributable to the diminished resources as well. Walls is a much smaller firm than Global was, so its CSR aspiration had to be scaled accordingly. Also, because Walls had not developed a tradition of enterprise CSR, some important ingredients for CSR engagement were absent within the firm, and the tradition of employee participation and resource allocations had to be redeveloped.

Judy: The day has its own limitations... There is very little budget at the moment. There is a huge preferred obligation to the estate that has to be met first. The largest impediment to growth is the corporate commitment... There aren't the corporate resources at the moment, except for enormous [internal] good will and collegiality.

Assuming that Walls Investment is able to meet its debt obligation to the Global creditors, in time more resources will be available to grow the firm in other directions. The early continuity in CSR practice established through the inheritance of the Global Investment foundation provides an unusually strong platform for CSR development within a firm that has little tradition of corporate philanthropy. However, it remains to be seen whether this platform will spread throughout the organization or remain in its current form. In either case, some of Global's legacy persists.

This section began with a discussion of financial models and the skepticism that investment bankers learn regarding their use. It then sought idiosyncratic routines and found two in the case of Global Investment, an emphasis upon the gloss and an employee-centered CSR strategy. Both routines transferred to other organizations, with losses along the way. In the next section I document some of the differences in continuity processes between newspapers and investment banks. Investment banks have much more

capacity for organizational and departmental preservation, but the nature of trust in financial entities may sometimes undermine that capacity.

Organizational Continuity Through Group Survival

Investment bank post-failure continuity processes are very different from the related processes in newspapers. This section examines the structural opportunities that access to capital provides to the subsidiaries of large failed firms.

As I have shown above, it is often possible for norms and routines to survive when employees move into very different work. However, the odds are grossly increased when sub-organizational units persist intact. Many of the stories of continuity in Investment Banks involve persistence within a relatively unchanged work group. The journalists attempted to make this happen, but investment bankers have done it much more successfully.

Global was a large firm, and its subsidiaries and divisions were fodder for a large bankruptcy case. Bankruptcy law provides an important framework for the preservation of component businesses within insolvent entities, and the framework provided two key possibilities for the persistence of component entities. First, and most common, competitors and complementary organizations can buy components of the firm which allows the purchaser to gain resources at a significant discount while allowing creditors to receive as much up-front value as possible. And second, the employees and managers of a division or subsidiary can offer to purchase that division or entity from the creditors. In doing so, they are competing against external purchasers, but this may be an act of self-preservation for the senior employees, whose position within the entity is uncertain

after it is acquired. At Walls Investment this was a particularly appropriate arrangement because the organization is heavily subdivided into individual business units organized around individual persons:

Judy: I think that Walls Investment, pre-merger and perhaps post-demise, is really more of a consortium of entrepreneurs than a corporately structured hierarchy that has a natural upward flow of decision-making. This is a more lateral than hierarchical organization, and that doesn't mean that policy here isn't articulated and aligned, but at the core of its acculturated mentality, is that "I'm running a business," a portable business. If I leave Walls Investment tomorrow, all my clients leave with me. The very foundation of the culture is different than what you would find in a more corporate setting. There are a lot of walls here. We're an office within an office. Even structurally, the office here is built for siloed thinking.

A would-be purchaser of Walls Investment would have to deal with the very real possibility that by upsetting the entrepreneurs within the consortium, they would lose components of the business and its value. That uncertainty makes the acquisition by the fund managers a particularly appropriate option (Hansmann 1994).

Where self-acquisition is not possible as it was with Walls, it is often possible for individuals within the firm to leave the entity, form a new entity, and then continue to operate in the same business, as Judy describes the entrepreneurs doing. This has happened often in banks, and even more often in asset management companies. Moves like this have been common in financial services, an industry where individuals are only as valuable as the relationships that they can carry away from a firm. For the many investors who lost money through the failure of these larger entities, the latter course has particular appeal because they felt that they could better capture the attention (and interest) of the former bank employees if they were no longer working for the larger entity. This has been the value proposition of small private wealth management

investment firms and family offices that manage investments for small groups of investors.

Post-Failure Organizing in Investment Banks

Along with the structural differences between the post-failure processes of investment banks and the related processes in newspapers, distinctive individual activities and relational processes define the post-failure experiences in the two industries. When former employees get a severance, or have access to other resources to pad their unemployment, it eases the transition between jobs and opens up options that would not otherwise be available. As I mentioned above, many job transitions in investment banks are timed around end-of-year bonuses. Laid-off employees were unable to time their transition in this way, so those who had the opportunity to work for another bank after their employer failed were initially happy to do so. However, that job was very often transitional for these employees, who used that firm as a stopgap measure while they worked to establish other options. There are many advantages to applying for jobs while currently employed, particularly because employment signals employability. The point about post-failure organizing is that continuous employment may sustain the job slot without sustaining the social or routine bonds that hold a firm together. Experiences vary widely between former bank employees. Some found the acquiring firms to be open to their ideas, in some cases arguing that the acquisition improved their prospects relative to working for Global, whereas others found the culture of the acquiring firm to be highly problematic.

But occupational transitions have become so common within investment banks that groups of former employees ally themselves with their organizational affiliation from prior employers. Interestingly, these alliances represent banks as they were rather than banks as they now are. Many former bankers are carriers of norms that have since fallen out of fashion in the forms where they originated. But the incidence of numerous and different organizational vantage points permits unique cultural exchange. Here I provide a long quote from Earl, who worked at an office of Global that was acquired by Open Investment and later quit. He describes his experience at Global below. Note that several banks are described here, each with a pseudonym. OMB, Richards, Waverly, and Thorndale are nowhere else discussed. For sake of reference, Earl had worked at OMB, Open, Richards, and Global during his career.

Earl [emphasis added]: At Global Investment we used to have within the Global culture a sub-OMB culture. So, I came from OMB, my boss was from OMB, my boss's boss was from OMB, my main client was from OMB. And two people on my team used to work at OMB. We had our own language that we would use that was the OMB language for things.... When I was interviewing for this Waverly job, it turned out that Waverly had a lot of ex-Richards people in [one] office. Three of the people who I interviewed with were ex-Richards so we knew a lot of people between us. We knew probably a dozen people between us. So we could easily slip into using Richards terms for things and then talk about the differences. For instance, *at Global Investment we'd say, "At OMB we'd do it this way, but at Global Investment we do it this way." Then we'd try to map out whether it sucks or it is better, in our experience and moving forward. There is so much movement of senior people now that you get this culture moving around. I always think that I carry my culture with me, and it is really a mix. I'd say that I was most influenced by Richards in terms of how to get work done, actual work, and most by OMB on how to work within the company, the importance of building relationships, what seniority is, and how it is achieved. Seniority is not just getting a title, there's different elements to it. Is it managing people? Is it limited to business? Is it helping your division? There's different elements to it. My old boss at Global Investment, an old OMB guy, he's like, "Look, I reject the OMB ideals. I think it shouldn't matter how you manage people. I think it shouldn't matter how long you've been in the company. What should matter is how much you delivered this*

year.” That is a very foreign idea for OMB, which used to be on a long-term trajectory. People use those kinds of cultural ideas very explicitly. I find it interesting. It is actually a very useful tool.

Interviewer: It is like you are choosing between which routines to use.

Earl: Exactly, and you know, as you get up in seniority you have a lot of influence over institutions and routines. I was sitting on the review boards for some of the project management tools Open was developing, and it was all Global Investment people. No Open people were on there. But we were all bringing in ideas from other companies we'd worked at and trying to get those addressed. Some of us were onboard, and now we're part of a Global Investment culture.

Interviewer: Can you give me an example of one of these OMB vs. Richards decisions where you had to work out?

Earl: I think that probably a good one was a Thorndale vs. OMB situation. OK, for example, how we hire people and what kind of interviews we need. At OMB the rule was that you needed to have at least three officers interview someone before you could hire a new junior person. Global Investment had no such rule, but we did it anyway. We thought that was a good [rule]. But we did that rule anyway. We still made the three-officer rule inside our group. We were all ex-OMB people, and we thought that was a good idea.

[Or another example:] Days off on the weekends. If you work weekends, we had a comp day policy at OMB. Under four hours was zero, no additional time off. You could work four to eight hours and get half a day, after eight hours you'd get a day and you'd have to take it within two weeks. It was a very specific HR rule. There was no comp policy at Global Investment, it was like, at discretion of the manager. So, you had some groups where the managers were callous and immature and giving no credit, and because of that, their people didn't want to work on the weekends when they needed to. With other guys, if you answered a phone on a Saturday you'd get a free day off. And employees hate that kind of crap, so every group that I went into, I agreed with my boss on this, we had a group policy for that. I went to HR and asked if it was OK, they said, “We're not going to ask, but we won't tell.” These are concrete management things that are part of a culture.

There are a lot of things like that, about how to onboard clients, how you evaluate business opportunities. For example, at Open there was no cost benefit analysis of many projects, it was just like, “If a senior guy says, ‘do it,’ then do it.” And then the projects lost money, and it was like, “Oh well, I guess I was wrong.” But at Thorndale, for some reason they had a really strict cost-benefit analysis for all new investments, and it had to make money or they wouldn't do it. It had to be something, there had to be some tangible, well-understood benefit so that any senior guy could answer why we're doing this. It had to be very clear, and some senior guy couldn't just do that by himself, it had to be launched by

everybody. Those kinds of things were quite different, but we try to take the best practices from the cultures, and in most places you control a lot.

Given the mobility of labor, it may not make sense to fix routines within the boundaries of firms, particularly if enough critical mass from one firm is able to move into another. On Earl's account, the cultural shifts within banking over the past decade have created extremely diverse influences from firms that were once quite isolated from one another. The combined effect is an explicit choice between options with references made to the originating organizations. These are proto-norms and proto-routines, accessible responses to situations that can be called upon in making decisions. As with the selection processes discussed in Chapter Three, the decision between proto-norms appears to be constructive: a rational choice based upon best practices. The diversity of careers permits the conversation, and the dynamic nature of routines and norms makes it worthwhile. Insofar as bankers stay within the industry, there are often significant opportunities for transferred norms and routines.

Differences Between Continuity in Banks and Newspapers

Several characteristics of investment banking influence transmission processes. The acquisition processes involve much more fragmentation and reconfiguration. When employees are able to retain their jobs within the same work group, the transfers of routines and norms are extremely likely, and even if the organizations change, employees have an added measure of autonomy because they are able to time their own job transitions.

Control over timing reduces the likelihood of ill-fated entrepreneurial projects undertaken without planning. Both journalists and bankers eventually spread widely

throughout their industries. Many investment bankers trickled out to other organizations after they received their bonuses for 2009, and sometimes before. Many journalists signed onto entrepreneurial projects, and once they realized the onerous, undercompensated work, they gradually disassociated themselves from the effort as they pursued other interests.

Journalists and bankers also differ in their business knowledge. People with training in business view organizing a new firm as a deliberate and gradual project that is not easily undertaken in a crisis, but journalists may not share this view and the related concerns. Business knowledge may undermine some of the optimism necessary to start a firm. Organizational life empowers a group of people to believe in themselves, and to identify with the organization, but some of that empowerment may exaggerate the capabilities that individual persons have to offer.

For many bankers, large banks continued to be the only viable setting for their work. This is because large entities are, as of yet, a necessity for those who wish to be involved in issuing financial assets. Given this organizational need, some former bankers attempt to pitch their way back into banks with investment ideas for structures that could offer new opportunities.

Another consistency between banks and newspapers is the importance of credentialing in the post-failure transition. One former journalist was a well-regarded journalist, but had no education beyond an associate's degree. Colleges asked her to teach their classes, only to learn that she had not yet received the degree that they intended to issue to their students. Within organizations like newspapers, it has been possible

historically for people to advance through their careers without professional credentials other than experience, and in a normal economy lateral transitions would also be possible. However, when jobs are unavailable, credentials become extremely important. At Global, the person who was able to come along with the foundation was the person who had an accounting background rather than the more senior manager who had supervised that person's work.

The presentation of norms and routines and their opportunities for post-failure transfer followed a different course than the presentation on newspapers. In this chapter, the relationship between norms and retention has been a focal to understanding who stays in banking. Investment bank routines were shown to transfer through similar mechanisms to newspapers, but unlike papers, investment banks seem to reconfigure with more planning and preservation.

CHAPTER FIVE: WHICH FIRMS SHOULD FAIL?

Introduction

Thus far, this dissertation has demonstrated that organizations survive failure through the careers of former employees. It showed that routines and norms outlasted failing newspapers and investment banks because laid-off employees retained them through post-failure projects and new jobs. The positive aspects of individual transitions reinforce this organizational narrative. Some laid-off workers describe a sense of liberation. They revisit questions of meaning that are drowned out in the din of organizational life, and innovate accordingly. But these positive narratives are tempered, if not undermined, by the dark side of organizational failure. Former employees struggle to find work, experience age discrimination, and suffer through financial hardships for which they are ill-prepared. The dark side of failure results in a sense of listlessness, powerlessness, and social disintegration.

The transition to the current chapter and its topic asks the reader to switch from sociology to ethics and from descriptive to prescriptive research. The leap is not a small one: the operant proof of empirical truth holds little sway here in the question of what ought to be, and we must explore different tools in order to decide within a kingdom of ends. Before leaving behind the empirical matters and qualitative data, though, I will ease the transition with the story of a journalist who serves as a moral exemplar of the post-failure transition.

Roland was employed by the Regional Post as a photojournalist. After he was laid off, he was able to buy most of the equipment he needed at a significant discount from the Regional Post. Since then his adventures have taken him through a number of extremes, including a failed trip down a remote river in Africa, work in an Asian food restaurant, and work in forestry services. The year after the failure was a hard one. He and his wife were divorced from a 30-year marriage, his house went to sheriff's sale, his son was also laid off, and he continues to struggle financially. But for all of his trials, Roland expresses a sense of liberation:

Roland: It's been the greatest year of my life. It's taken me out of the realm of the known and pulled me into the unknown. When you're working you're always kind of like "ugh this is awful, I wish I was out there on one of those construction stop and go signs, anything but this..." That's kind of foolish. You look back on it like, oh, I was getting a paycheck, and a big one, too. I'll never see that kind of money again. It's actually made me sharper and smarter. It's like going from being a dog on a chain to being a wolf. Out there on the hunt. If I hadn't lost my job I would have never gone to Africa. It's totally opened my brain and my heart. It was like, wow, this is amazing! And I want to go back. It's also strange, because I always thought if I lost my job I would just go [hiking] all the time and have a great time. Actually, it's so much pressure. I used to [hike] and do all that stuff. Now pretty much every day I am on the hunt. There's not much time for recreation. More "get it figured out." That's what I am trying to do. I am trying to figure it out. Right now I have to figure it out before I dip too far into my IRA. My divorce lawyer recommended to me when I was talking to him about my financial troubles these financial people. I went to talk to them..., with the glass tables and the mahogany doors, and I went and sat down with these 3 women and they looked at all my stuff, and this wonderful woman... told me that they generally don't look at anyone's portfolio who was under 250 grand. She said that a session like I had with them would normally cost like 1200 or 1300 bucks just to sit there. They found me so fascinating that they decided to do it for free on the condition that when I made money they would make money too. I was like "cool!" I was thinking ok I want to go back to school and become a professor. She was like "no, you get a job, and then you go to school. School costs money, and you don't have it. Even if you took a loan out, you have to pay it back. Get a job first." Then when I was going to Africa I was thinking – oh they're going to hate this idea. She said it was a gamble and that was great. So they have been working with me and helping me. People come out of the woodwork to kind of help you.

It's been an amazing experience and it's been really fun. I am kind of out of the period- I can talk like this. Last winter it was pretty serious. I hadn't made a dime since the weddings quit in October. . . . I have just been cobbling together a bunch of stuff, but I had a very lean winter, it was very scary. Just cold and dark. I had a girlfriend and broke up with her on New Year's Day. It was just like, oh this is really bad. You didn't want to pull your head out from under the sheets. Now things are starting to turn, now that the economy is starting to open up a little bit, and things are starting to happen, you know, for me. I feel very positive about everything. I am in a way different space than I was when I worked for the Regional Post. I wished I had saved a lot more money. I wish that when they had told us [it was going down] I wished I had taken it seriously. I didn't take it very seriously. The paper's old, no one's gonna shut this thing down. Somebody's going to step in and save it. That has always happened. I don't think any of us could have envisioned it. It's like we were on the Titanic and the furniture was sliding around and we were going "nah." Unthinkable. It's pretty exciting, losing the house is pretty huge, that weighed on me a lot during the winter. We lived here 20 years and raised our kids here, and I didn't think it would rock my world, but it did and it is probably going to rock it when I actually leave the house. But it's okay. It's really okay. I kind of dreaded going to the year anniversary get together wondering what that was going to be like. That was going to be a bummer. Everybody was very happy and positive. Moving in different directions. . . . Nobody was saying it was the most horrible thing that had ever happened. People just move on. They get jobs and they go places and they do different things. It's good. I mean I could still be at the Regional Post and still doing my job and enjoying it, but this has just opened me to many possibilities. Every now and then I still kind of resent it. Geez, I am 58 years old getting kicked out on the street. That's tough. But the world is round, and somebody that's on top today is on the bottom tomorrow. That's kind of the way it works. I am healthy- I have my health. It's great. So I have a lot of stuff going on. Sometimes I look and say, "Well you're headed for a cardboard box. That's how this story is going to end." But you can't look at it that way. You have to keep doing the best you can and honestly if all goes to hell I'll just find some non- profit and go back to Africa. Hand out water bottles and stuff. I don't know. It's scary but it's exciting. [After the Regional Post failed] The Regional Tribune swung some vines to some people, and I don't know how happy they are. I feel like I got a chance to do something different. I didn't just jump to another burning ship. I am still kind of hanging out. I am still here. When the paper closed I was like "where am I going to be in a year? What will that be like?" Well, that's come and gone. What am I going to do in another year? It will be something and it will be interesting. Who knows where it's going to go? I guess that's the joy of it. I don't know where it's going to go. At the same time, I am steering the ship. There isn't anybody responsible but me. When you're working for somebody you can always think that they made a bad decision, or if it wasn't for that person, I could do this. . . . Now it's just ME. When I get up and I have a day when I don't get much

accomplished, that's my problem. I am responsible. Every morning I get up at about 5 and write, kind of get the day squared away and sometimes I go all day and some days I poop out about 3, but tomorrow I can say "I'm going to go [hiking], and I'm going to [hiking] Wednesday morning too. I set my own goals and sometimes I think I don't work hard enough and sometimes it's kind of like, well, just kind of relax and don't spin your wheels too much. This is way different. I look around and it's like man I beat up my freelance career and here I am trying to restart it. There's people that have been out there doing it while I was working at the paper. And THEY'RE struggling. But it's something new. And I have some advantages over people, because I write, too. I write and photograph, and I have been an editor and a manager. I can start a chainsaw, and all this other kind of stuff. I have a lot of tools in my belt. Hey, you just got to get up and go look for it.

Roland's story is up and down. His lows are beneath the low points that his organizational life would have permitted, but his highs seem somehow higher. For him, the experience gives him total accountability for his own actions and provides him with a sense of freedom that he might not have experienced at this stage in his career. Many survivors of failure discuss the sense of new challenges and fresh perspective that they find. Failure can be devastating, but it is also a process of renewal.

Roland may never re-establish a sense of order like he had at the Regional Post. He may never have to do so. It may be enough for him to work as a freelancer and to live one project to the next. Though Roland's experience and transition is not unusual, most survivors eventually seek order within a new occupational context. They try to establish new organizations and new opportunities. It is in their experiences that the iron cage is rebuilt. As I argue in the third and fourth chapters, both journalists and investment bankers tend to draw upon routines and norms from their failed firms in their understanding of the organizational logics of their new places of employment. There are contrasts, some of which create conflict, but there are also tacit uniformities that sustain or permit the re-establishments of proto-norms from the context of failed firms.

This chapter transitions from an empirical account of failure to a normative account of failure, which is further developed in Chapter Six. The final chapter provides some analysis of how these aspects of the project fit together, but here it must first be recognized that the question of which firms should fail is given vitality by situations like the one that Roland has faced. Most people are not able to spin their organizational failures as positively as Roland. He is exemplary in his forward-looking willingness to embrace the help available to him and to change with the times, to take risks, and to continually seek to do things that will be interesting and useful. However, loss is often more salient in these accounts than liberation. It is the loss associated with failure that initially invokes the question of which firms ought to fail.

For the survivors of organizational failure, the question is often “why?” So often, the answers are somewhat obvious. Firms fail when they are unable to gather the resources necessary to survive, especially when their debts make survival impossible. But it is too easy to act as if failure is an exogenous and necessary process. In this chapter I will argue that failure is always a choice, as is survival.

Like it or not, organizational death is a basic feature of a capitalist economy. We rely upon failure as a process of renewal to make space for innovative organizations and as a motivator for surviving firms (Schumpeter 1950). Given the personal costs of post-failure reorganization, the stakes are high. So we should make sure that we get failure right. This means, firstly, that the right firms should be targeted for failure. It also means firms should treat their employees with decency as they disband.

Some firms should die and some should survive. One might think that economics alone could tell the difference, but I will argue that it takes more than a balance sheet to tell which firms ought to persist. Consistent with this view, empirical findings suggest that justifications for organizational disbanding rely on more than financial expectations. When Sutton (1987: 551) studied the process of organizational death, he found that managers called upon key performance criteria relevant to the effectiveness of the failing organizations. While financial performance was a consideration in every case, it was not exclusive to all other considerations. For example, the lackluster research productivity of an academic department was used to justify a decision to disband that department. In asserting the complex nature of failure, I also tacitly affirm a view of the corporation as a complex entity whose performance must be measured in social, financial, and environmental terms. In my view, social performance is more than an idiosyncratic objective shared by a few social entrepreneurs: it is a basic component of business success.

This chapter applies some of the leading frameworks of business ethics to the question of organizational survival. It finds important insights for survival in utilitarianism, human rights, and stakeholder fairness arguments, but nonetheless finds that these frameworks are unable to account for the integrative challenge that the research requires. The next chapter provides my account as an attempt to integrate these diverse considerations into a single approach to the question of which firms should fail.

Failure and the Domain of Ethics: Deliberate Failure and Its Consequences

Is organizational failure an appropriate subject for ethics? There are two arguments that may call the normative analysis into question before it begins. These arguments relate to the relevance and substance of failure as a subject for ethics. In order for an ethical argument regarding failure to be relevant, failure must be subject to rational agency. We would not say, for instance, that lightning ought not to strike, that an object should not fall with gravity, or that a crankshaft should not turn when a spark plug ignites. Ethically normative statements pertain to rational and deliberate choices rather than to purely mechanical or natural phenomena. Insofar as failure is a process beyond human control, ethics has little to say about it.

The second necessary condition is one of substance. This is a more contentious issue within ethics. There are some who deny any special separation between the subjects of ethics and anything else. But a more standard view is that some choices have ethical features that others lack. Ethics has little to say about a choice to throw a stone into a pond and much to say about a choice to throw a stone into a person's window. The difference is not in the nature of the stone or the material properties of the glass; it is in the intrusion of that stone into something of worth. We might therefore ask whether organizational failure is more like a stone being thrown into a pond or a window. The substantive basis for a normative discussion depends upon organizational failure being of consequence to something of value.

On the subject of failure's moral relevance, I will argue that failure is a deliberate choice. Failure is as much a choice as starting a firm or any other action taken within the

scope of a firm. Firms neither come into existence at random nor disappear at random. When Sutton's managers explained the reasons for their firms' closures, they provided an important input for the sensemaking through which organizational actors began to accept the impending collapse. But their explanations were not mere rationalizations. The possibility of "permanent failure" (Meyer and Zucker 1989) proves that firms can choose to survive indefinitely despite persistent financial underperformance, and thus because of non-financial considerations. Insofar as some firms can underperform persistently without collapse, it lends credence to the view that financial interests alone do not dictate the fate of a firm, and that non-financial justifications may stand for more than words of comfort. Organizational survival is, and has always been, a choice. Every day when employees and managers come to work, they are choosing for their collective enterprise to survive. If they chose otherwise, they could exit (Hirschman 1970) or perhaps disband the firm by fiat. The same can be said of investors who capitalize, customers who purchase, and suppliers who deliver. Sometimes the costs of exit are extraordinary, and sometimes the reasons for staying are overwhelming, but in almost any case imaginable, the constituencies of a firm decide whether that firm will survive or disband. This again reinforces the multi-stakeholder conception of failure outlined in the first chapter.

The complexity and plurality of an organization's choice to fail makes it seem inevitable once it finally happens. But there are numerous inputs into the process until the decision is finalized. Insofar as managers and employees are willing to reduce their pay, take furlough, or allow their wages to go into arrears (Spicer, Dunfee, and Bailey 2004), failing firms can survive for a long time. With patient shareholders, lax lenders,

determined regulators, and public generosity, firms can survive indefinitely. Some firms persist through adversity because their stakeholders are willing to make sacrifices to see them survive. Others get bailed out and shift liabilities onto taxpayers.

This view of the corporation as surviving at the pleasure of its stakeholders owes its origins to the earliest formations of modern corporations. As merchants and speculators first began to charter companies at the pleasure of the crown in the late middle ages, the corporation took on the character of an entity that united the interests of insiders subject to the authority of the state (Micklethwait and Wooldridge 2005). Despite the profound diversity of organizations and forms, we can still understand the modern firm in similar terms, as an ongoing process of trust relations between individuals and a wider social order, a process that places shared resources into the control of some individuals for a purpose. If we understand the firm in these terms, organizational death occurs when trust is revoked, when individuals cease to work together, and when the collective purpose is decomposed into a set of potentially incompatible individual interests. Though we call this process death, it is more aptly understood as divorce. Like divorce, disbanded organizations decompose formerly-related persons and shared resources into individual persons and separate resources; the process of organizational failure is one of individuation that forces each person to act in his or her own regard or at least to select his or her own motivations going forward. Divorce is a choice and so is failure, though the costs of staying in a bad marriage or a defunct organization may speed the conclusion.

If it is agreed that failure is a choice, the second necessary condition follows in course. Organizational death, disbanding, or divorce, whatever its designation, is a vital organizational process, and an important site of ethical conflict. It is moral relevant because of the high stakes involved. Broadly speaking, firms condition human behavior and without them some actions would not occur or would occur differently. It is not possible to articulate a normative theory of organizational persistence without first accepting that the firm is a predictable cause of human behavior. It need not be accepted that the firm is blameworthy, in a moral sense (see May and Hoffman 1991), or even that the firm can be punished (Laufer 2006). But organizations must be understood as affecting the behavior that occurs within them. Without this premise there would be no reason to care about whether firms survive. Insofar as it is believed that individuals within a firm are going to continue to do as they did when the firm was operating after it is gone, we should not care if the firm survives. Given the current understanding of failure in management research, the premise is uncontroversial. However, it suffers from an apparent contradiction with the larger empirical argument of this dissertation, which might be read as a denial of the importance of organizational survival. To be sure, I do find that despite organizational failure, many people are able to sustain their habits, norms, and routines.

Because post-failure reorganization is both constructive and incomplete, the contradiction is alleviated. As a *constructive* process, post-failure organizing puts organizational norms and routines through a filtering process as employees try to make sense of what went wrong in the failing firm. The process is imperfect, but does have the

opportunity to improve upon the dysfunctional norms and routines of failed firms. A process of reflection selects among them, quickly discarding those perceived to be useless or unjust. As an *incomplete* process, when firms fail, any loss in productive capacity is only partially remedied by the post-failure efforts of former employees. While these individuals may continue to do similar work in a similar way, they may do so in a different place in service of a different public, leaving the point moot from the perspective of a given city or region. Most of the journalists who are laid off by newspapers continue to be journalists, but they often do so hundreds of miles away where their work product no longer serves the same audience. Because failure is a constructive process that either selects norms and routines entirely or chooses the best of them, it may sometimes be good for bad firms to fail. And because failure is an incomplete process where some productive potential is destroyed, it is sometimes bad for good firms to fail.

These bases for substantive ethical considerations add to the more obvious considerations of shareholders and creditors whose investments and loans depend upon the long-term viability of the firm. Thus organizational failures pertain to something of value, of value to customers, suppliers, employees, shareholders, and numerous other constituencies who depend upon that firm and its services. Provided that the interests of these people are morally relevant, so is the destruction of a firm that serves them.

Though organizational failure is an appropriate subject for ethical analysis, very little has been written on the subject. The present chapter fills only a small portion of that void. While it provides an argument that some firms should survive, it does not seek to explain how they should be made to survive or any specific system in furtherance of this

end. And, while it provides an argument that some firms should die, it does not endorse a system of corporate capital punishment or any other system as a means to this end. Its modest objective is to demonstrate that business ethics has something to say about which firms should fail and how they ought to behave while they do so.

As a prelude to the sections below, the argument proceeds as follows. To start, organizations are justified by the benefit that individuals derive from them. Were a utilitarian to apply her most basic calculus to organizational survival, she might reach the following conclusion: firms that do more harm than good should die, and firms that do more good than harm should survive. The first section develops this utilitarian account. However, there are important limitations to this perspective, which are discussed in the second section. In particular, it is not clear whether any economic organization can justify harming one party for the benefit of another. The third section attempts to address these criticisms with a rights-based approach. This account suggests an even more restrictive scheme: firms should do no harm at all (Donaldson 1989; Freeman and Phillips 2002), and those that do harm ought not to exist. The latter argument is guided by an account of organizational legitimacy that originates in organizational theory. Unfortunately, the rights-based account also suffers from an important deficit: it is unable to distinguish between failings that justify an organization being disbanded and failings that are less severe in nature. The rights-based approach also lacks any constructive guidance on underperforming firms that serve important social needs. These issues are addressed by the property-based approach articulated in the next chapter. The next chapter outlines this

alternative, and tests it against the utilitarian and rights-based approaches through the newspaper and investment bank examples.

Long Live the Useful: A Utilitarian Account

Utilitarianism is an ethical system that directly seeks human well-being as its end. It is a normative view conceived in the writings of Henry Sidgwick (1981) and John Stuart Mill (1998), developing on the work of Jeremy Bentham, James Mill, and David Hume. Though these thinkers were some of the leading philosophers of their time, the utilitarian view has since fallen out of favor among many academic philosophers. Modern philosophical treatments of utilitarianism are rife with exceptions that strike a decidedly deontological tone (see Williams 1973a: 78). One reason for this trend is the ascendance of the field of economics as the arbiter of public policy, legal analysis (Posner 2007), and many less established normative projects (Levitt and Dubner 2005). Economics takes a version of utilitarianism as its guiding compass, and philosophy has responded by noting some of the limitations of this view (Anderson 1993).

Though economists may be viewed as utilitarians, their perspective differs markedly from the philosophical systems upon which it is based. For example, Sidgwick rejects efficiency as the practical end of utilitarianism (Bernstein 1995: 477; Sidgwick 1981) and affirms the importance of the distribution of happiness (416). These considerations are largely unaddressed within economic orthodoxy⁹, particularly with respect to the economics of profit seeking organizations. As such, it should not be

⁹ To be fair, economists have applied considerable effort to the study of inequality, providing us with concepts like the Gini coefficient and other measures of aggregate wealth dispersal. However, these efforts are often ignored in the quest for efficiency, a quest based upon a calculus of mathematical maximization that is common to many economic analyses.

surprising that a utilitarian account of organizational survival would demonstrate incongruence with the economic account of the same subject. Whatever utilitarian welfare considerations were carried into economics by the Cambridge school (Medema 2007), the discipline has yet to apply them to firm production functions. For firms, the economic model continues to be survival of the fittest.

The application of utilitarianism to the problem of organizational disbanding begins with the economic concept of market failure. A market failure occurs when the market does not internalize the full costs or benefits of a good or service into its price. One version of that problem is aptly described through the concept of positive and negative externalities. When a transaction results in positive externalities, third parties benefit without paying. When a transaction results in negative externalities, third parties incur uncompensated costs. Positive and negative externalities justify taxes for public goods and regulation for private bads (Braithwaite 2005), and they also justify a more nuanced account of when organizations ought to survive.

Economists generally assert that profitable firms should survive and unprofitable firms should fail, a view that becomes politically contentious amidst economic crisis (Romney 2008). The specific economic view relates to the anticipated positive cash flows, a firm's capacity to pay its debt, and the other expectations of financial performance. The core assertion of the economic view is that a firm should be judged on net by the entirety of its transactions. Unfortunately, it can be extremely difficult to determine the totality of a firm's transactions, and actual performance is much more difficult to measure than the proxies we rely upon, such as share price. Though I will not

get into the problems of performance management, which I discuss in the next chapter, the reader should be cautioned against the view that economics provides a simple or even coherent approach to measurable performance. In this area, the gaps between theory and practice are expansive (Meyer 2002).

Whatever its limitations, the financial conception of survival provides a starting point for the utilitarian account of organizational survival. The utilitarian criterion can be stated as follows:

Firms that do more harm than good should fail and firms that do more good than harm should survive.

As with the financial account, the organization's productivity is considered in aggregate. However, unlike the standard economic analysis, the utilitarian must consider all benefits and harms derived from the organization, not just those that result in direct economic costs and benefits. The contrast between a utilitarian system of ethics and a financial logic derives from the failure of the market to internalize all costs and benefits from positive and negative externalities. Insofar as there are costs incurred by third parties that go uncompensated, a firm's financial performance may be overstated, as with the case for its survival. Similarly, insofar as there are benefits from a firm's activities that go uncompensated, then its revenues may be understated, as with the case for its survival.

There is some novelty in applying the utilitarian logic in judgment of a firm. Utilitarianism is normally applied in one of three standard ways. First, act utilitarianism seeks in every action the maximization of the total benefit achieved by that act. Second, rule utilitarianism seeks to define rules that will most often achieve the most beneficial result. And third, a variant of rule utilitarianism is applied to public policy arrangements

in an effort to determine which policy provides the greatest net social benefit. There is a well-established tradition of applying utilitarian concepts to legal analysis in contract, tort, regulatory oversight, governance, and market control. The application of utilitarianism to the question of whether a firm should survive is akin to the policy analysis process, but the maximization of utility occurs through the selection of firms rather than the selection of policies.

The implicit orientation in the standard economic thesis regarding organizational survival is that organizations should produce a net benefit in the form of profit. There are classes of organizations, like nonprofits, where the benefits are otherwise distributed, but “for profit” firms are aptly named for their orientation. If we contrast the aggregate ethical (consequentialist) and economic outcomes of the firm, we find four possibilities:

Table 5: Ethics, Economics, and Organizations

		Ethics	
		<i>Net Harm</i>	<i>Net Benefit</i>
Economics	<i>Profitable</i>	Perverse Profiteer	Ethical Enterprise
	<i>Unprofitable</i>	Wanton Washout	Costly Crusader

To develop the relevant contrast, I highlight some features of these different categories.

Ethical enterprise. Most businesses fall into this category. Organizations that provide valuable services for their customers, jobs for their employees, and tax revenue for their surrounding communities without additional harm incurred by third parties are often both profitable and beneficial. Whether the business is a day care, a factory, a gas station, or a restaurant, most businesses do more good than harm, and they survive through the value that they provide.

Costly crusader. There are many firms that lose money despite their public benefit. This is arguably the case for all nonprofit organizations, which are most often dependent on public subsidy and private donations by design, and it can be the case with for-profit firms and social entrepreneurial ventures as well. Dees explains the contrasting logics of standard and social entrepreneurship, and the problems in trying to evaluate them based upon the same criteria:

An entrepreneur's ability to attract resources (capital, labor, equipment, etc.) in a competitive marketplace is a reasonably good indication that the venture represents a more productive use of these resources than the alternatives it is competing against. The logic is simple. Entrepreneurs who can pay the most for resources are typically the ones who can put the resources to higher valued uses, as determined in the marketplace. Value is created in business when customers are willing to pay more than it costs to produce the good or service being sold. The profit (revenue minus costs) that a venture generates is a reasonably good indicator of the value it has created. If an entrepreneur cannot convince a sufficient number of customers to pay an adequate price to generate a profit, this is a strong indication that insufficient value is being created to justify this use of resources.... Markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. These elements are often essential to social entrepreneurship. That is what makes it social entrepreneurship. As a result, it is much harder [than with regard to a standard entrepreneur] to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value. The survival or growth of a social enterprise is not proof of its efficiency or effectiveness in improving social conditions. It is only a weak indicator, at best. (Dees 2001: 3)

The contrast between social and financial performance is appropriately explained. The question is whether Dees is correct to suggest that different performance criteria should be applied to different organizational types. I argue that both social and financial criteria are relevant to all firms. On my account, social performance is more than a quirky objective shared by a few entrepreneurs who are doing something different.

Organizations gain additional resources through economic and social benefit, regardless

of the munificent intentions of benevolent entrepreneurs, but if the people who they serve do not have enough money to pay or if the benefit of their productions are not fully contained among those who purchase, the profit measure of social performance may underestimate the firm's social value. In Chapter Seven, I will introduce the argument that newspapers are examples of costly crusaders, an argument that explains some of the frustrations of news organization.

Perverse profiteer. Freeman (cited in Freeman 1994: 421n) has argued against what he calls the "business sucks" story. He claims that a morally pessimistic view of business is a major problem for business ethics, and that business can be responsible without becoming something other than business. Freeman rejects the separation of economic and ethical motivations within business, and argues that they must be considered together (Freeman 1994). While I accept the claim that ethical and business motivations are inextricably connected, it seems incontrovertible that sometimes business really does suck. Such is the case with the perverse profiteer. This business causes harm to such a degree that if you took all of the surplus benefit that it provides, it would still be insufficient to compensate for its transgressions.

Few firms survive perennially in this status, but I submit tobacco firms as an example. It is difficult to quantify the pleasure that people receive from smoking or the social functions provided by cigarettes, but the health effects are now widely understood. Tobacco use impacts smokers directly and harms third parties through secondhand smoke. Given harm to third parties, it is possible that all of the uncompensated harm exceeds the value derived from smoking by all of the willing participants in the tobacco

economy. Supposing this to be the case, a utilitarian might argue that tobacco firms should not exist. Such an argument raises a variety of questions. For instance, should a product not be available because some of its purchasers choose to use it in a way that is harmful to third parties? Would it be enough to add third-party considerations to the warning labels already applied to packaging? The contentious debate regarding the regulation of potentially dangerous products is broadly dispersed and intensely politicized, but the buyer's responsibility objection is particularly hollow in the case of tobacco. The tobacco industry has actively obstructed health science and public health regulation for nearly a century (Brandt 2007). The obstructed regulations, particularly regarding the use of tobacco in public places, were most often intended to regulate consumption rather than its distribution, thus rendering the paternalism critique moot. If tobacco brands cannot thrive without public consumption and public consumption will impose uncompensated costs onto third parties that exceed the pleasures derived by primary users, then a utilitarian view suggests that tobacco ought not thrive. As a case of perverse profiteering, tobacco is a paradigmatic example of how regulatory gaming can delay failure and sustain economic performance, promoting the disconnect between ethics and economics.

Other industries provide even clearer examples. IG Farben used enslaved prisoners from Nazi work camps to operate its factories (Hayes 1987), Union Carbide's subsidiary in India released methyl isocyanate gas from its Bhopal facility and killed thousands (Trotter, Day, and Love 1989), and BP lost control of one of its drilling operations in the Gulf of Mexico at an incalculable environmental cost (Goldenberg

2010). In each of these cases, the social and environmental harm tested the firm's very foundations, whether or not it was profitable. Massive industrial disasters are very different from the ongoing harms of tobacco, but for a utilitarian whose promethean perspective is supposed to anticipate the risks involved in building a dangerous chemical plant near a large population center and drilling far into a deep sea gas reserve near a biologically sensitive estuary, the accidental nature of these incidents does not authorize the logic that brought them to fruition.

Just as the question of profit ignores past successes in the consideration of current and expected income, so too does the moral calculus deny the importance of past beneficial actions given current or anticipated wrongdoing. A variety of black market businesses also fit into this category, generating profits without positive social benefits. The regulatory environment is a significant factor in determining which firms fall in this category, and which lose money and become wanton washouts. In principle, the irresponsible acts that make firms perverse profiteers offer some basis for regulatory intervention, though such interventions may be slow, bitterly fought, and eventually ineffectual. As will be discussed in detail below, general legal frameworks, like limited liability, play an important role in defining these categories. Hansmann and Kraakman explain the problem:

Some small corporations that are viable under limited liability would cease to be so under unlimited liability, since they could not buy adequate insurance and their shareholders would be unwilling to expose personal assets to the risks of a tort judgment. But there is no reason to assume that such small firms should exist—that is, that they have positive net social value. In fact, an important advantage of unlimited liability is precisely that it would force such firms—which are effectively being subsidized by their tort victims—out of business. (Hansmann and Kraakman 1991: 1879, emphasis in original)

Here, the authors illustrate the complex relationship between regulation and bankruptcy. It is possible that some regulatory changes will cause firms to fail, but if this does occur, it is important to ask whether the firms ought to have existed in the first place.

Wanton washout. The final category includes those businesses that are neither beneficial nor profitable. These businesses, we might presume, are unlikely to survive. Interestingly, this category provides some of the most famous cases in business ethics: asbestos; Hooker Chemicals dumping hazardous waste at Love Canal; A.H. Robins releasing the Dalkon Shield IUD, which caused severe pelvic infections, spontaneous abortions, and deaths; and numerous other projects in which temporary profit centers became long-term cost sources that eventually destroyed many of the firms involved. It is often very expensive to do the wrong thing, and the rewards can be disappointing. History is strewn with accountability successes where the real costs of a harmful product are forced back onto a company, and these incidents often result in a collapse of business viability. Lacking the intrinsic motivations of worthwhile business objectives, it would be surprising if unprofitable and morally corrupt firms persisted.

Many illegal and black market businesses also belong in this category. Criminal businesses often do get caught, and the costs of criminal business often outweigh the benefits. The widely publicized findings that street-level drug dealers earn approximately minimum wage (Levitt and Venkatesh 2000), much less than media portrayals imply (MacCoun and Reuter 1992), provides another example of a business activity that is neither profitable nor beneficial.

The four categories emerge from a conflict between ethics and economics. When incentives are aligned the utilitarian account has nothing to add to the economic analysis. The entire universe of business can be described as either wanton washouts, which neither make nor ought to make profit, and ethical enterprises, which are both profitable and socially productive. The two other categories result from incongruence. On the basis of total utility, the survival of costly crusaders enhances utility, yet the economics alone suggests that these firms should fail. The disbanding of perverse profiteers enhances utility, yet the economic case suggests that these firms should survive.

Problems with the Utilitarian Account

This initial calculus is an oversimplification in at least two respects. First, the utilitarian would wish to account for the costs of transitioning from an ongoing business into the post-failure arrangement. It would not be enough to identify the net-harm produced by the organization; it would also be necessary to demonstrate that the destruction of that organization would be net beneficial. Further, the simplified calculus ignores the likely eventuality of unanticipated consequences (Merton 1936) within and beyond the firm. Any intervention into the system of control that determines the fate of firms is likely to result in a mixed set of outcomes; such is the nature of economic regulation. For example, one unintended consequence of regulating smoking in bars has been an increase in drunk driving, as the obstinate smoker-drinker drives further to jurisdictions where bars continue to allow smoking (Adams and Cotti 2008). One of the unintended consequences of destroying harmful firms is the likelihood that the same deviant behavior that fostered them will foster new firms in their stead. Responsible

business exit from irresponsible business may also require regulatory and governance intervention.

Of course, all applications of utilitarianism and social policy more generally result in uncertainty and new risks. Though many use this uncertainty as an argument against all interventions, J.S. Mill suggests caution rather than inaction: “The question [of] to what objects governmental intervention in the affairs of society may or should extend [does not] admit of any universal solution” (Mill and Ashley 1920: 941-942). If the universal case for or against regulatory intervention does indeed fail, then we are left with a complex set of considerations that must be weighed before any intervention can be justified. This is particularly the case in rescuing companies or driving them to disband.

If the consideration of utility is aggregated to the organizational level, one intuitive implication is that net harmful organizations should be destroyed and net beneficial organizations should be preserved. But as we move beyond the simple contrast and attempt to implement a system of moral selection within a population of organizations, a number of issues emerge that the utilitarian account is ill equipped to address. I will summarize four such issues: the problem of aggregating consequences to the firm level, the problem of accounting for consequences, the problem of regulation and incentives, and the problem of trading off between harms to one party and benefits to another.

Aggregation. At what level should we calculate utilitarian choices? We have already established the distinction between act and rule utilitarianism. Rule utilitarians suggest that choices should be aggregated into rules to reduce the cognitive task of

choosing. In contrast, the reason to aggregate utilitarian outcomes to the firm level are quite different. In the case of organizational aggregation, there are three primary considerations: failure is already a choice, organizations are a coherent scope for the aggregation of activity, and aggregation is consistent with the legal system of corporate personhood.

Utilitarianism is about choices, and if failure is a choice, as I have argued, then the moral choice of failure invites an analysis that is aggregated to the firm level. Such an aggregation does not excuse or exclude other levels of analysis. This is unlike a utilitarian analysis of a public policy that focuses singularly on the citizens of a single nation state and abandons any analysis of consequences for resident aliens or citizens of other nations (Singer 2002). Instead, aggregation accepts a global theory of responsibility for the outcomes of actions causally linked to the firm, and seeks to sum the benefits and burdens of these acts.

Clearly, the behaviors that are ascribed to the firm should focus on those actions that are caused by the existence of the firm, but this is already an underlying assumption of every organization-level claim. When we say that Microsoft developed Windows, that Google indexed a web page, or that Southwest flies to Chicago, we are saying in each case that the employees of these firms undertook these activities, or developed the technologies that did so. Thus, just as we ascribe actions to a firm, we can question its survival by asking questions about the totality of these ascribed actions.

In fact, we aggregate many actions to the level of the firm, and this process is facilitated by the legal theory of corporate personhood. Firms write checks, incur fines,

make contracts, own property, and are subject to laws. Insofar as we can conceive of reasons why individual persons can be put to death, either as a means to deter other criminals or as retributions for wrongs done, we should be so much more ready to develop a similar line of reasoning at the organizational level.

These are good reasons to aggregate consequences to the firm level, but they provide little help in determining whether the firm must fail. Clearly, it should be preferable that the firm should change rather than close. But sometimes firms should fail. Organizations are path-dependent. Most of the time they are likely to keep doing what they have done before, despite good reasons for doing otherwise. The cases of tobacco and asbestos provide direct evidence that firms are not easily swayed from their path to profit, despite an understanding that such a path results in unjustifiable harms. How can a manager determine which firms have the fortitude to change their ways? It would seem preferable that the firm should be reformed through changes that would allow its beneficial activities to prevail over its harmful activities. There is no reason, as a matter of morality, why we should prefer that perverse profiteers disband rather than improve their practices. If anything, the reverse should be preferable. There are many interdependencies that exist within a modern firm, and failure can be a personally devastating process, the costs of which must be accounted for in the utilitarian case for organizational selection. Imagine that a utilitarian manager realized that his business was doing more harm than good. Ray Anderson, former CEO of Interface, a \$1 billion company that specializes in carpet tile faced just this situation and was able to explain it in stark terms:

“The market, in its pricing of exchange value without regard to cost or use value, is, at the very least, opportunistic and permissive, if not dishonest. It will allow the externalization of any cost that an unwary, uncaring, or gullible public will permit to be externalized—caveat emptor in a perverse kind of way. My God! Am I a thief, too? Yes!... I am a plunderer of the earth and a thief—today, a legal thief. The perverse tax laws, by failing to correct the errant market to internalize those externalities such as the costs of global warming and pollution, are my accomplices in crime. I am part of the endemic process that is going on at a frightening, accelerating rate worldwide to rob our children and their children, and theirs, and theirs, of their futures.” (Anderson 1998: 6-7)

Anderson recognized the crisis of conscience in the corporation that he had started. He described himself as a “plunderer,” but the next logical step was not for his firm to close: it was for the firm to refocus its efforts on the sustainability of its practices. Such reformation is much more obvious as an avenue for change than the complete destruction of the firm. Yet, Anderson acknowledges that firms that fail to behave responsibly should die. He is particularly perturbed by the environmental posturing of disingenuous firms:

“We must be genuine. Our actions must speak louder than our words. Greenwash (pseudo-green) is, and should be, business suicide. Our customers should and will see right through it” (Anderson 1998: 72).

Anderson’s argument is pragmatic. It assumes the overlapping of ethics and economics and denies the possibility of perverse profiteers. Yet, cases like tobacco and asbestos challenge this assumption. It is possible that scrutiny will eventually lead to accountability, but it may take a very long time for this to occur.

And what if carpet production, like tobacco sales, cannot be conducted responsibly? What if it became clear that the product life cycle for carpet was unjustifiably harmful and that a change in business models would be costly beyond the financial capacity of the firm? A manager faced with such a situation might find that too much fixed capital had already been invested in a harmful production process, and that

too many callous managers had already acquiesced to that business model. Given such a situation, as a matter of morality it would be incumbent upon the manager to convince the board, and through them the shareholders, that the business should be closed. And even that might not be enough. Utilitarianism may also require that this manager salt the earth, to ensure that no other businesses be permitted to operate in this harmful way. This is arguably what tobacco companies ought to have done 100 years ago when the first health effects of their products came to light.

The problem of aggregation is therefore addressed through a two-step process. In the first step, the morally underperforming firm seeks improvement by increasing social benefit and decreasing social harm. If this is successful, the firm becomes net-beneficial and the process is complete. However, if a good faith effort fails to create a net-beneficial organization, then the organization is left with no other option and utilitarianism would require that the organization disband.

Accounting. How are we to know the net benefit of the organization? The advantage of accounting for money is that there is an objective standard. Granted, there is considerable wiggle room within this objective standard. Nonetheless, in economic accounting, an established process calculates and tracks the realization of revenue and costs according to a set of professional standards. Utilitarianism, however, concerns itself with measuring the aggregate happiness realized from different possible states of the world. That problem admits of no easy solution (Posner 1981).

There are important movements attempting to measure the non-economic costs of business, notably triple-bottom-line accounting (Elkington 1998; Zhao and Kuh 2004),

and these attempts should be applauded. But two problems present themselves as entities endeavor to measure their own impact. First, they struggle with measuring and comparing against a common standard given the diversity of valued ends. And second, they struggle with third party effects that are not easily measured or anticipated.

There are many consequences of business that are not easily reduced to economic measures. If a business pollutes a stream in a way that makes the water undrinkable for the foreseeable future, there is an economic cost to this loss for those communities that depended on that stream. The value of that loss is calculable, but the ancillary biological costs of the pollution are difficult to measure. Worse still are the human costs that cannot be reduced to economic measures. What is the cost of losing a nice place to sit and read a book? What is the cost of a disfiguring injury or an intellectual impairment? The settlements for cases involving these personal costs provide a measure of how they are valued within a legal system, but for many people the value of money and the value of health and well-being are incommensurable (Anderson 1993). Incommensurable goods are not reducible to a single measure with which the fate of a firm can be determined. This includes fundamental aspects of a firm like the community of employees and the position that the firm fills within the wider economy.

If placing a price tag on community is difficult, measuring the broader market implications of a failure is nearly impossible. Large entities have primary connections to many other firms and secondary connections to a sizeable portion of the economy. When large firms fail, the shock is felt first by their employees, investors, creditors, customers, and suppliers, but the shock may also reach the employees of their suppliers, the

customers of their customers, and so on. Interdependencies were a primary justification provided in the 2008 bailouts, and a source of significant contention (Walsh 2009).

Though these are plausible justifications, the justifications are not quantitatively derived. The real costs of allowing AIG, GM, or other firms to fail are unknown and perhaps inestimable.

Regulation. Should the state make socially valuable firms profit when the market fails to do so? Should the state regulate harmful business activities to reduce negative externalities of business? One could imagine that a benevolent regulator of the market would wish to achieve just such an end, but not know where to begin. Problems of value measurement are central to the convoluted evaluation of the United States' Troubled Asset Relief Program. Moral hazards are one of the first critiques. Critics argue that government subsidy reinforces bad behavior and encourages imprudent risk taking. Yet even hard-nosed economists can justify subsidies and regulations where true market failures are involved. Examples include the adoption of new technologies with network externalities (Katz and Shapiro 1985), the creation of public spaces, and the regulation of pollution (Cornes and Sandler 1986). There are different ways of dealing with these externalities, but there is little doubt that they must be dealt with somehow. For example much of the debate on carbon emissions concerns the choice between hard limits and tradable limits. Should pollution be restricted or should a market for pollution be created? The choice will affect whether organizations are viable and for how long. Hard limits might immediately destroy the least efficient firms whereas tradable credits might allow some of these firms to be sustained. The fact that regulation can cause firms to fail is

either an indictment of the policy or of the firms, but trying to preserve firms can create odd motivations as well. Some businesses might choose to appear burdened by regulation in order to justify subsidy.

Tradeoffs. Does benefit for one party justify harm for another? On utilitarian grounds, it would seem that it does. Imagine a misanthropic but law-abiding firm that causes a variety of harms. The firm mistreats employees, distributes unnecessarily harmful products, and neglects shareholders by overcompensating unremarkable executives. Suppose that the harms to these parties outweigh the benefit received by others. If the firm identified children with leukemia as a dire social cause, and managed to materially improve their welfare, could the increased welfare among the children justify the firm's survival? Can the firm's philanthropy offset its misanthropy? There are many reasons to think that such a tradeoff would be unfair, even if it resulted in a better social situation for the children. It may be argued that the employees, shareholders, and customers have rights that cannot be disregarded or overridden by a virtuous act directed elsewhere.

Yet, the tradeoff critique may overstate the case against utilitarianism. The greatest good may be served by excellence in the corporation, and excellence may be characterized by respect for employees, concern for customers, consideration of shareholders, and appropriate uses of the firm's resources for targeted social improvement. The problem of tradeoffs is very real, but if these problems are overemphasized they may dominate cognitive models for how problems are solved. Concerned with this, business ethics educators and practitioners might do well to focus

on identifying ways that firms can increase the production frontier and thereby benefit all stakeholders. As Freeman argues:

“Redescribing corporations means redescribing ourselves and our communities. We cannot divorce the idea of a moral community or of a moral discourse from the ideas of the value-creation activity of business. To do so, entails the acceptance of a principle, the Separation Thesis, which has for too long been used to close off discussion and to silence conversation.” (Freeman 1994: 419)

And so, it is at least worthy of note that an overemphasis upon tradeoff constitutes a shift from the value creation activity that is at the heart of business ethics. The conflicts are undeniable and unavoidable, but many businesses manage to operate as ethical enterprises without sacrificing the interests of one party for another.

The problems of aggregation, accounting, regulation and tradeoffs present special problems for the utilitarian who would apply her logic to the question of organizational survival. Yet, even taken together, these issues are not sufficient to cast doubt upon the larger project. The intuition stands that the most beneficial firms should survive and that the least should cease operation. What seems to be missing from the utilitarian account is a theory of organizational legitimacy that is sensitive to the deontic constraints of economic life. The next section provides the basic features of such a theory.

The Legitimate Should Survive: Rights and Fairness

The utilitarian account emerges as a close parallel to the standard economic logic of organizational failure, and it is useful as a baseline to demonstrate that the profit imperative is not a comprehensive criterion for the survival of business. However, the extension of this view offers little insight into the relative priorities of business. The notion of business as a beneficial entity is exceedingly vague, and other than eking out a modicum of social and environmental betterment, the theory provides almost no content

in terms of how a firm ought to behave. Yet, in cases that call a firm's survival into question there are numerous factors and distinct social values that are involved in the larger calculus. For the deontologist, the question is not whether the firm is beneficial, but whether it is legitimate.

Theories of legitimacy in organizational analysis were conceived in starkly survivalist terms. Unlike the literatures that they have fostered, many earlier treatments of legitimacy focus on the existence of a firm. For instance, "Legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist." (Maurer 1971: 361). Similarly, "Organizational legitimacy refers to... the extent to which the array of established cultural accounts provide explanations for [a firm's] existence" (Meyer and Scott 1983: 201). More recent conceptions of legitimacy are somewhat less concerned with the existential questions than with a more continuous friction between an organization and its environment. Suchman, for example, offers the following definition, "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (1995: 574). Suchman's definition is more general, but it also dilutes the sense of power that the perspective has over the entity's fate. To ask whether a firm is desirable, proper, or appropriate is very different than asking whether that firm ought to exist.

But the stark question of legitimacy and survival continues to be raised in some settings. Private military companies are one extreme example of entities that are beleaguered with a crisis of legitimacy. Elms and Phillips (2009) argue that the pragmatic

legitimacy of these firms derives from the value that they provide directly to their stakeholders, particularly those that pay for their services. On the other hand, their moral legitimacy involves the interplay of reciprocity in their relationships to various external constituencies, including the communities where they are permitted to operate. Unlike the utilitarian, who is relatively willing to trade-off between benefits for some parties and harms for others, Elms and Phillips suggest that profits for security contractors and safety for their customers are not sufficient to provide these firms with moral legitimacy, it is the wider lens upon which such legitimacy depends.

The distinction between pragmatic and moral legitimacy is an important part of this argument, but when Suchman developed that distinction (Suchman 1995), he did so in utilitarian terms, arguing that moral legitimacy concerns “judgments about whether the activity ‘is the right thing to do.’ These judgments, in turn, usually reflect beliefs about whether the activity effectively promotes social welfare” (579). Whose welfare must a corporation promote in order to justify its survival? What is “social welfare” in this context?

John Rawls is one of the most influential critics of tradeoffs in human welfare. Rawls argued for basic institutions that maximize the welfare of the worst off (Rawls 1999). For him, the question was not merely, “What makes the largest cake?” but also, “Who gets to eat it?” In Rawls’ view, deviations from equality are justifiable insofar as they improve the welfare of the worst off. The Rawlsian view differs from the utilitarian view in two key respects. First, it places deontic constraints on acceptable means for the promotion of social welfare: “Each person has the same infeasible claim to a fully

adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all” (Rawls and Kelly 2001: 42). And second, wealth is to be distributed through positions that are open to all through equal opportunity and “are to be to the greatest benefit of the least-advantaged members of society” (Rawls and Kelly 2001: 43). So, while Rawls shares the logic of maximization with utilitarians, his argument precludes the tyranny of the majority or the supremacy of the minority and thus it is an egalitarian argument. However, Rawls explicitly limits his argument from being applied to individual morality, arguing that the agreement upon basic institutions did not require a comprehensive doctrine that would force every individual to redefine her own definition of the good. Others have argued that egalitarian views do require personal forbearance in the interest of fairness (Cohen 2000).

In business ethics Rawls is applied directly to considerations of meaningful work, workplace democracy (Hsieh 2008), equality of opportunity, and executive compensation (Harris 2009). Freeman suggests another application that requires a much looser interpretation of a Rawlsian approach:

One way to understand fairness in this context is to claim a la Rawls that a contract is fair if parties to the contract would agree to it in ignorance of their actual stakes. Thus, a contract is like a fair bet, if each party is willing to turn the tables and accept the other side. What would a fair contract among corporate stakeholders look like? If we can articulate this ideal, a sort of corporate constitution, we could then ask whether actual corporations measure up to this standard, and we also begin to design corporate structures which are consistent with this Doctrine of Fair Contracts.” (Freeman 1994: 416)

Freeman goes on to propose that under such an arrangement, any modifications to the contract should be unanimously consensual and all externalities should require a renegotiation of the contract that would include those who were unwittingly involved in

the agreement. Phillips has a similar idea in mind when he suggests a principle of stakeholder fairness as a basis for evaluations of organizational legitimacy (Phillips 1997). He suggests a principle of fairness to govern stakeholder relations:

Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted. (Phillips 2003b: 92)

This principle creates obligations between cooperating parties relative to their contributions and their benefits. Phillips uses the principle to develop a conception of stakeholder legitimacy, arguing for which stakeholders have rights within the firm (Phillips 2003a). But the principle is extensible to the entity level.

While Phillips (2003a) remains primarily focused on deriving the moral legitimacy of stakeholders, his emphasis on the reciprocity of relationships between firms and stakeholders suggests a similar logic for the moral legitimacy of firms. Firms derive moral legitimacy from recognizing their responsibilities to morally legitimate stakeholders (Elms and Phillips 2009: 407)

We might extend the principle to suggest a fairness-based principle of organizational survival:

Firms that fail to recognize their responsibilities to morally legitimate stakeholders ought not exist.

A fairness-based approach to developing a positive theory of organizational legitimacy provides the first deontological perspective, and Phillips and Elms have come closer to applying this theory directly to the question of which firms should survive than anyone else. The implications of their view are important for organizational analysis and business ethics in general, and the findings will overlap considerably with the utilitarian perspective on organizational survival. Wanton washouts and perverse profiteers are

illegitimate because they fail to respect the reciprocity upon which the principle of stakeholder fairness is based. However, unlike the utilitarian, fair play cannot justify the preservation of social enterprise or other entities that the market mechanism is unable to support. Costly crusaders, the darlings of the utilitarian view, have no ground to stand upon in the principle of stakeholder fairness. In those terms, it was fair that they fail.

The second possible application derives from a conception of human rights. Whereas the Elms and Phillips approach seeks to theorize legitimacy through a conception of the firm, Donaldson (1997) expresses the obligations of corporations that are similar to the obligations of individual persons. He begins with the obligations that all persons share for protecting all other persons and their basic rights, as defended by Henry Shue (1996). Firms, as collections of people, may be said to inherit many of the obligations of individual persons. This sort of argument has a very long history. Plato, for instance, attempted to explain the virtuous city with a reference to the virtuous man (Plato 1992 [380 B.C.E.]). Part of the novelty of Rawls was the assertion of a sharply delineated domain for social justice at a level of abstraction that differs from individual morality. Yet, corporations are arguably much more like persons than basic institutions. Assuming freedom of entry and exit, firms are comprised consensually and therefore situations in which individual persons act according to their own choices. So, why would these freely choosing people not be subject to the same obligations as corporate actors to which they are subjected as individuals? Donaldson revises Shue's argument to define a list of rights and correlative duties that are limited according to the specific nature of the corporation and its purpose. In his view, there are responsibilities that belong to persons

and nation-states, but are not entirely relevant to corporations. For instance, firms have an obligation to avoid depriving a person's freedom of physical movement, but not to help to defend this right. Non-discriminatory treatment, however, requires that firms avoid depriving it and help protect from its deprivation. Donaldson's argument is one of many that define what corporations ought not to do and what they must do in the language of rights and duties. Some aspects of his argument are incontrovertible. For instance, most would agree that a corporation ought not limit a person's freedom of physical movement. The question is whether these deontic constraints are sufficiently substantial to be linked directly to a corporation's right to exist.

The extension of corporate obligations to respect human rights to the question of organizational survival moves beyond the established literature. Should firms survive if they violate basic rights? We might presume that chronic offenders of any one of these principles may be appropriately described as illegitimate and their survival called into question. The principle is similar to a firm's failure to treat stakeholders fairly:

Firms that violate basic rights ought not exist.

The view provides an even more narrowly defined set of organizational obligations than the reciprocity argument originating in stakeholder fairness. There are, however, some issues highlighted here that are not so easily conceptualized within the other views. For instance, a corporation's duty to help protect freedom of speech and association, which Donaldson asserts may be easily overlooked by the utilitarian and fairness views.

Limitations of the Rights and Fairness Accounts

The rights and fairness approaches each have their own strengths, and they do avoid some of the limitations of the utilitarian view. For instance, neither is prone to unjustifiable tradeoffs that would harm one party to benefit another. However, they lack key criteria as well. They offer little or no insight into what firms are morally worthy and worth protection from bankruptcy, they offer no theory of proportionality based upon an internal logic for when excessive wrongdoing justifies closure, and they offer little insight into the problem of aggregation that plagued the utilitarian account as well.

Costly crusaders. Can the fairness approach or the rights-based approach say anything about which failing firms ought to survive on moral grounds? Though these firms provide some aspirations for firms to be fair and respect rights, these aspirations are not sufficiently specific to distinguish between a costly crusader and a useless (but harmless) organization.

It may be desirable that we separate the positive and negative calculus. There is a tradition within management theory that suggests that positive and negative assertions of viability should rely upon different justifications. Drucker expresses the contrast:

The first test of any business is not the maximization of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss. The root of the confusion is the mistaken belief that the motive of a person—the so-called profit motive of the businessman—is an explanation of his behavior or his guide to right action. [The profit motive] is irrelevant for an understanding of business behavior, profit, and profitability whether there is a profit motive or not. That Jim Smith is in business to make a profit concerns only him and the Recording Angel. It does not tell us what Jim Smith does and how he performs.... In fact, the concept is worse than irrelevant: it does harm.... It is in large part responsible for the prevailing belief that there is an inherent contradiction between profit and a company's ability to make a social contribution. Actually, a company can make a social contribution only if it is highly profitable. To put it

crudely, a bankrupt company is not likely to be a good company to work for, or likely to be a good neighbor and a desirable member of the community—no matter what some sociologists of today seem to believe to the contrary. (Drucker 1974:60-61)

Nested within Drucker's critique of the "profit motive" is a subtle distinction between failure and success. In Drucker's view, organizations that cannot generate profit cannot be sustained, and thus are not socially beneficial. There is no room within this argument for the rescue of the costly crusader, but there is room for the objection to the profits of the perverse profiteer, as there might also be on fairness, and human rights grounds, depending on the nature of the social harms that make the firm morally bankrupt.

The rights based views are clearly incomplete in this particular area. This is not merely a matter of "moral free space" (Dunfee and Donaldson 1999: 38). Though we do wish to allow room for organizations to pursue whatever values are beneficial to their members and others, it is nonetheless important that a conception of organizational survival account for the contributions of the firm, even those that are not contributing to financial performance.

Proportionality. One of the admirable qualities of the fairness approach is that it gives organizations something to strive for rather than merely something to avoid. The problem with both the fairness-based approach and the rights-based theory is the question of magnitude. The utilitarian scheme provided a hard-line distinction between net benefit and net harm, and that distinction originated within the logic of the argument itself. But what about an unfair firm implies that once things have become abjectly unfair, that firm ought not exist? Friends cheating at a game may lead a person to quit playing, but that

implies organizational exit for individuals. At what point should a person destroy the game so that they can never cheat again? The rights logic offers few additional answers.

Aggregation. If one person in an organization with 10,000 employees is responsible for severe misconduct, say, the murder of an activist in a place where the company does business, should the firm not exist? The crime is severe, and the individual who is involved should be punished, but what good is served in destroying the company? The crime is a capital offense for a person in many jurisdictions, but should it be a capital offense for a firm? Any argument that can be made to this end must necessarily come from outside of the basic rights logic, because these constraints offer no clear path for evaluating the firm as a whole. As faulty as the utilitarian's aggregation seemed to be, and as troubling as the tradeoffs permitted by it were, it did provide a discrete answer to the question of which firms should survive. The prevailing rights-based accounts only offer more questions.

Conclusion

Utility, rights, and fairness offer helpful insights on which firms should fail, but the insights are inconclusive and incomparable. Utilitarianism provides a coherent theory with little practical value. It is difficult enough to know the consequences of a single act; it is nearly impossible to sum up the benefits of a complex corporation. And worse, without additional constraints, utilitarianism would allow a firm to harm one party as a means to benefitting another, a tradeoff that violates the basic nature of consensual and mutually advantageous participation in the market.

Deontology remedies the defects of utilitarianism while introducing its own inconclusiveness. It would not allow a party to benefit at the expense of another and would prohibit violations of human rights, yet it offers little insight into when these violations warrant organizational failure, presumably as a form of punishment.

Retributivism, a deontological theory of punishment, suggests that the punishment should fit the crime, but the theory is criticized for offering an underdetermined schedule of punishments (Pincoffs 1977). If it is difficult for retribution to be meted out on person-to-person crimes where the concepts of harm are at least comparable at the same scale, the difficulty is worsened in choosing a punishment for an entity. To forcibly disband a firm as punishment for its rights-violating acts seems reasonable if serious injustices occur, but whether the line should be drawn to include only genocide and crimes against humanity or a broader set of crimes is an interpretive matter.

Stakeholder fairness prohibits tradeoffs that unfairly disadvantage a collaborator or burden third parties. It suggests that mutual benefit through collaboration is the end of business, which gives some indication of what a malformed business would look like, and how disbanding might be justified. Yet, like deontology, the theory provides no bright line that might distinguish firms that should disband from those that should not.

The next chapter provides a property-based account of which firms should survive. In so doing, it develops an alternative conception of the purpose of the corporation. The argument shares characteristics with all three approaches presented in this chapter. It takes the conception of positive and negative externalities from utilitarianism and economics, reciprocity and mutual benefit from stakeholder fairness,

and cross culturally universal “moral minimums” from the rights-based approach.

However, in the end, it stands on its own as a theory of property and profit in failing firms.

CHAPTER SIX: LEGITIMACY, PROPERTY, AND SURVIVAL

Introduction

A fully adequate normative approach to corporate failure must deal with the divergent views outlined in the last chapter and play to each of their strengths. It must acknowledge that firms should provide net benefit, but that firms cannot do so by harming third parties. It must affirm the importance of fairness within the firm and require that firms are respectful of the rights of shareholders. A theory of failure should provide a means for dealing with these different perspectives on economic life and integrating them into a more comprehensive view. It might even exceed them, and recognize the interdependence of failure where supply chains create distance between firms and the consequences of their policies.

In this chapter, a property-based account of organizational failure provides such a framework, an approach upon which these competing considerations can be addressed in parallel. The account may be quickly described in the following way. Firms ought to survive when they provide morally substantive entitlements to profit, and they should fail when they are unable to do so. In unpacking the notion of profit entitlement, we are able to integrate the concepts of social benefit, deontic constraints, and fairness.

There are five key advantages of this approach relative to the accounts explored in the preceding chapter. First, it integrates the considerations of other parties into the fabric of the firm itself, providing a basis for a pluralistic theory of value that considers fairness, rights, and utility within the same calculus. Second, it recognizes the importance of

imposing the burden of failure on the appropriate parties. By targeting the parties who ought to incur the costs of organizational acts, the approach opens the way for reformed firms to survive and for firms that ought to fail to be quickly inspired to do so. Third, the approach is dynamic. It avoids a global calculus of benefit and harm, replacing these notions with a more immediate question of revenue and costs. It follows ordinary business logic even more closely than the utilitarian account in the previous chapter. Fourth, the property-based approach allows for a positive theory of organizational survival. Many firms lose money, but some losses are more regrettable than others. Regrettable losses constitute a special category that raises (but does not answer) the question of public subsidy and individual career sacrifice to sustain underperforming firms. And fifth, the property approach reconnects organizational survival with the larger industrial context. The property-based approach requires that all costs be internalized upstream within a supply chain in order to justify profits further downstream, acknowledging that a firm's right to exist cannot be determined in isolation of other firms and their responsibilities.

This entitlement basis for a theory of property requires that we differentiate between legitimate and illegitimate profit, a difference that can be difficult to identify. As Balzac wrote, "At the bottom of every great fortune without apparent source, there's always some crime—a crime overlooked because it's been carried out respectably"(Balzac 2004: 118). When it comes to wealth derived from respectable crimes, there are few sources that are better sanitized than profit. The origins of profit are easily forgotten: once distributed to employees and shareholders, no trace remains of

corruption, illegality, or environmental harm. The same can be said for profit derived from corporate torts and contractual breaches. The respectable origins of irresponsibly-derived profit are reinforced by the governance structure of the firm. Those who have benefited from crimes may transfer their obligations to non-beneficiaries before the costs are incurred. If employees and shareholders who benefit from corporate misdeeds do not bear the costs, the result is divergent moral and economic motivations.

To explore the problem of corporate crime and unjust enrichment, I consider a specific case of corruption at Siemens AG. In December of 2008, Siemens pled guilty to a globally systemic bribery strategy. The New York Times headline read, “At Siemens, Bribery Was Just a Line Item” (Schubert and Miller 2008). The \$1.6 billion settlement was the largest in history. The scandal implicated senior Siemens executives and accountants, along with public officials from more than a dozen countries. The SEC complaint covers a period from 2001 to 2007 and documents Siemens’ \$1.1 billion in profits from 312 projects associated with proven offenses. Siemens AG employees bribed public officials on the firm’s behalf from 2002 to 2007. The firm, and its stakeholders, profited from their crimes. By the time Siemens had negotiated its fine in late 2008, the human substance of the firm had changed. In the end, it was the shareholders and employees who would pay, but not the same subset who had first benefited from the crime. In answering the question of “who should pay?” we also begin to theorize the nature of moral entitlements to profit.

The plan for this chapter is as follows. The first section proposes responsible business as the means through which moral entitlements to profit are generated. A

comparison between the profit-from-responsibility view and the historical conception of property entitlements reveals a sharp contrast. Profit claims must be justified in a forward-looking way based upon the to-be-discovered accuracy of statements of revenue and cost. As long as irresponsibility is latent (unobserved and excluded from costs), then profits are morally indeterminate.

The second section argues that the status quo arrangements of limited liability and corporate personhood do not address this latency. In fact, it is these arrangements that create special problems. As a result, there are more failures than are necessary because wayward agents have incentives to hide improprieties so that discoveries are sudden and devastating to firm value. These arguments are demonstrated in the third section through the case of corruption at Siemens AG.

The third section provides four key arguments for specific duties between beneficiaries of organizational harm and the victim of these harms. Though it is acknowledged that some limits should be placed on these duties where parties were able to anticipate risk and negotiate ex ante, the argument is shown to hold at least for tort violations and crimes, an argument that follows a defense of unlimited liability found in legal analysis.

The fourth section takes the example of corruption at Siemens AG as a means to identify the relative strength of stakeholder claims over profits at different times during the Siemens corruption scandal. Broadly speaking, employees who actively perpetrated corruption are found to have the weakest claims, employees who were not directly involved but should have noticed the normative laxity have slightly stronger claims, and

shareholders who are unaware of any likelihood of transgressive behavior have stronger claims still, but none of these parties has claims to Siemens profit that exceed the claims of the citizens who overpaid for Siemens services through their taxes because of Siemens' corrupt payments to their officials.

The fifth and sixth sections concern an alternative scheme of stakeholder responsibility, and apply this scheme to the problem of organizational failure. By redesigning the system of governance so that mistreated stakeholders can reclaim profits, the corporation can be made to provide morally justified income to its shareholders and managers, and these parties can thus be motivated to destroy firms that produce more harm than benefit. This section focuses on the special problem of measuring and inspiring organizational social and economic performance.

The Entitlement to Profit: Ethics, Economics, and Property

Without the misalignment of economic and ethical motivations, there would be no need for the field of business ethics and no cases worth discussing. No arguments would be necessary to demand respect for employees, information for investors, or safety for customers; the market would provide. The business ethics faculty would be similarly superfluous. Who needs professors if the market teaches the lessons of ethics? Organizational failure would proceed whether a firm failed morally or ethically, and the worthiest firms would attract the most capital.

Sometimes ethics and economics seem to be fully aligned. Sometimes ethics pays and impropriety is costly. But to focus only on these congruent cases is to deny the darker

alternatives of costly moral acts and irresponsible profit. The incongruent cases set up the central tension in the field of business ethics, the struggle between ethics and economics.

Table 6: Ethics, Economics and Entitlements

		Ethics	
		<i>Wrong</i>	<i>Right</i>
Economics	<i>Profit</i>	Unjust Enrichment <i>(Perverse Profiteer)</i>	Substantive Entitlement <i>(Ethical Enterprise)</i>
	<i>Loss</i>	Justified Loss <i>(Wanton Washout)</i>	Unjust Impoverishment <i>(Costly Crusader)</i>

In Table 6 the upper right and lower left quadrants represent congruent cases where the incentives are aligned: righteous acts yield profit and reprehensible acts cause losses. The upper left and lower right quadrants represent a normative conflict between egoistic motives and ethical ones. In these cases, profits result from doing the wrong thing, and losses from doing it right. The table develops the same contrast as the utilitarian theory in the last chapter, but it focuses at the level of activity¹⁰ rather than the larger entity and it is focused on the entitlement to profit that such an activity generates.

The possibility of profiting from immoral activities has important implications for a system of property. Profit from ethical activities yields a substantive entitlement. When morally sound activities lead to profit, those parties who lay claim to the profit have a strong ownership claim. However, irresponsible activities provide no such property claim: instead, irresponsible profits are often owed to others. What is justifiable for irresponsible business? Probably losses: it seems that irresponsible actors whose businesses flounder may be said to deserve their losses.

¹⁰ I take the term “activity” from the performance management literature where activity-based costing is an attempt to ascribe costs to specific activities. As Meyer (2002) argues, if firms can also relate revenues to these same activities, then it is possible to evaluate them based on their contributions to firm performance, at least until clever individuals learn to game the metrics and drive all of the variance out of the measures.

The economic justice of losing out by doing the right thing is an open and interesting question. It is unlikely that anyone has a “right” to profit such that a loss caused by moral action would justify claims against others. But a more limited claim is defensible: insofar as others are profiting in the same industry from irresponsible behavior it is unjust, or at least unfair, that the responsible actor be punished for ethical acts. Also, consistent with the market failure argument for positive externalities, if a needed service is not being adequately valued because the market fails to measure benefits derived from that service, then there may be a case for public subsidy or private philanthropy in the promotion of the service, regardless of profitability.

The consequences of an irresponsible act resulting in profit are not merely the negative outcomes of the activity itself. The misdistribution of resources that results is also objectionable as a matter of property, and a similar market failure argument applies. If the market fails to capture negative externalities and to incorporate them into costs, then resources are likely to be misallocated to the harmful activity. The concern for property theory is that property allocated as profit to undeserving parties could motivate impropriety, forcing economics and ethics into tension.

This scheme is an oversimplification because is not always possible for an organization to meet all of the expectations of its stakeholders. Whenever people cooperate to achieve a common end, their interests remain distinct. Yet their efforts and resources become commingled. It is almost inevitable that the fruits of their labor will fail to serve some of their interests, and that a subset of the group will be disappointed. While this outcome may be unavoidable, it is nonetheless to be regretted by all members of the

cooperating group that all cannot benefit equally, or in measure with their efforts and contributions, a view established by Phillips' principle of stakeholder fairness. So, while the initial typology implies a sharp distinction between substantive entitlement and unjust enrichment, there is sometimes a "moral remainder" (Williams 1973b) that is beyond the means of the firm, but nonetheless within its responsibilities. Boundary cases are possible where individuals are substantively entitled to their benefits despite the existence of disappointments among their fellow stakeholders.

The property claims typology can be consistently applied to most ethics cases. For example, consider the case of corruption at Siemens AG. After an international investigation, Siemens pled guilty for bribery in late 2008. The SEC complaint identified 312 projects associated with proven offenses. The projects resulted in more than a billion dollars of profit for Siemens. According to the initial typology, insofar as bribery is wrong, the case belongs in the left column, and because the bribes resulted in more than a billion dollars of profit, the case should be in the top row. Siemens' bribery initially resulted in unjust enrichment, the upper left quadrant. Many people benefited from Siemens' performance in the course of this bribe-induced profitability, including managers, shareholders, investors, and creditors. The eventual revelation of the Siemens transgression resulted in the largest fine in history, and some of these parties were subsequently made responsible for paying restitution through the Siemens fine. But this fine does not change the problem of prior distributions of resources that are no longer justified. Siemens had already distributed ill-begotten gains, and recovery of these funds

is precluded by the limited liability structure of the firm. I will argue that such resources could be rightfully reclaimed (or “clawed back”) from those who are not entitled to them.

Though the conflict between individual motivations and moral duties is a universal tension in the human experience, modern business life strains the conflict far beyond its normal bounds. Limited liability allows individuals who have benefited from irresponsible acts to avoid paying restitution, provided that they’ve already sold their shares. More generally, the social organization of economic life moves individual persons through firms, careers, locations, and communities so that individuals often avoid the costs of their own misdeeds.

Many irresponsible acts are either never recognized or recognized long after the harm is done. If and when irresponsibility is discovered, its costs are often borne by innocent parties who arrived after the transgression occurred. I refer to this problem as *latent irresponsibility*. One of the property implications of latent irresponsibility is the unjust distribution of profit to managers and shareholders when other parties have more substantive claims. Just allocations of corporate profits require individual persons who have benefited from collective or corporate crimes to pay remedy to victims, the same may be said for civil liabilities as well.

Unjust enrichment warrants special concern for business ethics, because it pits pecuniary motivations against moral motivations¹¹. Maitland (1997) describes the market as a “school of the virtues,” and some markets seem to work towards this optimistic end.

¹¹ I use the legal terminology of “unjust enrichment” because, as I will argue below, the intentional participation of the enriched person is irrelevant to the justice of desert. It is not important that the person intended the harm, only that the harm occurred and thus undermines her claim on the property that she gained.

But when markets teach their lessons to the successors of irresponsible actors without cost to the original offenders, then the wrong people are being schooled.

Property. At a basic level, unjust enrichment is a problem of chronological perspective in a theory of property. Whether intellectual, physical, or real, most property claims are based upon historical justifications. As Nozick writes, “Justice in holdings is historical. It depends on what actually has happened” (Nozick 1974: 152). Intellectual property originates in authorship and assignment of creator rights. Physical property is either claimed or transferred so that the history of the object can justify a person’s claim upon it. Even redistributions of property through taxes are backward looking. Though a more elaborate account of property has substantial implications for business ethics (Donaldson and Preston 1995; Munzer 1990), this chapter relies on a basic feature of property as historically determined.

It is not difficult to make concrete statements regarding the nature of property. In most aspects of interpersonal life, people have relatively clear understandings of who owns what. Norms of ownership and transfer exist within all human communities, and while these norms differ, they are nonetheless coherent such that people know or can determine who, if anyone, has a special claim to a given resource. I call this coherence *property determinacy*.

Unlike the norms of ownership and transfer, the notion of organizational profit is eternally incomplete and temporally uncertain. Whereas a determination can be made regarding a stolen bicycle as to who has a justified ownership claim based upon the history of that object, a mere historical analysis of the hands through which a stock has

passed is not sufficient to justify the relative merit of a claim upon an organization's resources. Given uncertain costs, consequence, and finality, corporate profits are morally indeterminate. The costs and consequences of business are often not known until after business activity is completed, sometimes long after. More basically, it is not possible for all of the consequences of an act to be recognized prior to or during the act itself. It is not even possible to know how long one must wait for such recognition. And without certainty of the costs of doing business at any point in time, the moral justification of claims to the residual of those costs remains unproven. Costs are hidden by accident, ignorance, willful ignorance, and malice (Mulford and Comiskey 2002), but lacking an omniscient accountant, it is simply not possible for a balance sheet to state all costs in the present tense.

Must we be Prophets to Measure Profit?

If we cannot anticipate all costs, then we cannot immediately determine a firm's profitability. Without prophetic powers, rewards will sometimes be distributed to the undeserving. This may seem to be a somewhat obscure problem of entitlement theory, but it arises from a much more general problem of organizational performance measurement. In this section I retrace Meyer's (2002) argument regarding the problems of performance management. I extend his argument to the problem of social performance, and later relate my approach to Meyer's work.

The disappointments of organizational performance measurement are widely publicized, if not well understood. We know, for instance, that key measures of organizational performance are uncorrelated, indicating that the construct of

“performance” lacks clarity, if not validity (Meyer, 2002: 4). We also know that seemingly healthy organizations sometimes collapse without warning, demonstrating that basic questions of organizational viability and solvency are not measureable with established indicators of organizational health.

Unfortunately, the measures of social and environmental performance are no better. Firms watch indicators closely, gaming external perceptions by manipulating the few measureable proxies observable to market participants. Outsiders are therefore unaware of the actual intentions and consequences that are associated with a firm’s social and environmental performance. Surprises occur in social performance as often as they do in financial performance: well-regarded firms are revealed to be far less responsible than their reputations suggest. Enron, Nike, BP, and many other firms have disappointed high expectations and undermined business ethics rankings when background practices came to light.

We can locate the problem of performance management among three different audiences, each of which is frustrated by the challenge of measuring organizational performance. Responsible investors struggle to discern the real moral life of the firm. Returns-oriented investors struggle to determine the firm’s actual financial prospects. And managers labor to distinguish the activities that contribute to profitability from those that do not. Though investors of all types might blame managers (sometimes rightfully) for a lack of transparency, managers struggle with some of the same problems. It is often impossible to associate a given revenue stream with the person or persons whose

activities made it happen. And so, a lack of actionable information hinders managers as it does investors.

Why is organizational performance measurement so challenging? There are three practical problems and three normative problems, which I will describe here. The first practical problem is that organizational performance, unlike musical performance or mechanical performance, is not immediately and directly observable. The efficiency of an engine and the tonality of a musical expression are immediately experienced so that it is possible to observe the performance of the system with very little delay. In both cases, the immediacy of performance measurement allows for optimization that would otherwise be impossible. The modern engine has numerous sensors checking heat, oxygen levels, and fuel consumption in order to make slight adjustments to improve current performance based upon feedback from the most recent adjustments made to the overall system. This allows engines to dynamically react to changes in temperature and altitude without expecting the environment to provide stability. Similarly, the skill of a musician depends upon his or her ability to quickly adjust the sound that her instrument makes and the time at which it is made as immediate responses to the sound that she hears it making and the sounds of the ensemble in which she performs. Organizational feedback generally lacks this immediacy. In organizations, particularly large ones, there is often a considerable delay between the activity and the measureable performance of that activity. The few measures that are immediately available may not be directly actionable because they aggregate the work of multiple individuals, or they are subject to subtle manipulations.

The second key practical challenge relates to the decomposability of organizational performance into the multiple performances of individuals and groups. Organizations merge multiple performances of different individuals and activities so that it is difficult to determine which activities are productive and which are counter-productive. Attempts to measure the performance of multiple activities, and “roll them up” to the top of the organization may blur distinctions between differentiated sub-units that are not actually comparable. Attempts to drill down from top-level performance measures like profitability or return on assets may fail to properly attribute revenues to the activities that generated them. Activity-based costing provides one of numerous attempts to solve this problem, but as Meyer (2002) notes, it is much easier to attribute costs to activities than it is to associate revenues with activities, and the costs themselves are only a problem if they are unsupported by revenue.

The third key practical challenge concerns the human side of performance measurement. Performance measures tend to lose variance over time (Meyer 2002: 53): performance becomes more similar as actors develop similar strategies and as they learn to manipulate the system in order to show performance on key measurements while shirking unmeasured aspects of performance. When performance measures are entirely consistent with desired performance outcomes, then the result is a narrowing of the field as multiple performances converge on the performance frontier. If, however, the performance measure is only one of several factors in performance, then emphasizing the measure may detract from performance, a problem that has been the subject of considerable research (Kerr 1975).

Given the challenges, the whole project of performance management might be given up were its objective less important. But the practical benefits of deriving specific goals from measurable performance outcomes, and then using these goals to motivate behavior warrants ongoing efforts even if performance measures are second best. Remember the functional cases of the engine and the musical expression, each of which improved drastically when guided by immediate feedback and adjustment.

The normative questions of performance are equally complex. Empiricists tend to assume profit and shareholder wealth creation as the obvious end of business activity, which simplifies the end sought by organizational activities. Many of us in business ethics affirm these objectives, but we add a number of caveats and qualifications. At the very least, we assert that firms should follow just laws and keep their commitments. These are aspects of performance that most business ethics faculty would suggest that firms pursue regardless of the immediate financial implications. Many of us would add some other protections, fair treatment of stakeholders, responsible stewardship of the environment, and adherence to local norms are among a much longer list of performance criteria discussed in the preceding chapter that business ethics faculty put up for consideration in the classroom and articulate in our research. The resultant performance criterion is so riddled with qualifications and exceptions that it sometimes seems like we are re-tasking the firm, and ascribing to it a much more general social mission. Dunfee (2006) did this explicitly when he argued for a duty of rescue, and his work is not alone in asking more of firms than the mere pursuit of profit.

In business ethics we face three somewhat different challenges with respect to organizational performance. The first is widely recognized and discussed; it is the question of what basic purpose should motivate a corporation and its employees. From the dominant perspective of performance management, profitability is a key performance criterion, but it lacks some of the key characteristics to would make it useful as a goal-generating strategy, an argument that I traced back to Drucker (1974) at the end of the last chapter. The second normative challenge is also widely recognized. Like empiricists, we have reason to fear that our understanding of performance will be manipulated by shrewd managers who are more concerned with perception than reality. We are all aware of the perversities of reputation management, green washing, and vanity ethics campaigns that do little to address underlying issues.

The third normative issue, which is also similar to the problem of timing in performance measurement, has received relatively little attention within business ethics. Empiricists realize that the lag in performance measurement is at the heart of the organizational challenge faced by managers. Between financial performance measures, which are backward looking, decisions, which are current, and share price, which is prospective, managers may focus on the wrong criteria expressed in the wrong tense, they may look to the now rather than the future. In fact, the entire exercise of performance management is based upon the prospective inferences of past linkages between organizational activities and desired outcomes. Activities that yielded results in the past are rewarded in the present with the hope that they will yield results in the future, and new activities are tried out in the present to determine what should be rewarded in the

future. The system works well when managers seek long-term performance, but that is not always the time horizon on which managers operate. Consider, for instance, managerial decisions to re-allocate costs and to use aggressive earnings management strategies to shape performance perceptions; present-tense actions that undermine future performance in the service of flawed performance measures. As an example of this, Harrison and Fiet (1999) observe that CEOs reduce funding for research and development to make it look as if they have improved performance immediately after being hired, a strategy that inevitably reduces organizational functioning as well. Notice that the manager, accepting the performance measure of profitability chose to game the system by reducing costs immediately after being hired, many of which were actually contributing to shareholder value. Because the performance measure was unable to measure actual performance, the manager increased compensation in a way that decreased organizational performance.

I focus on this third issue, on the latency in the observation of performance. It is characterized by two related problems: (1) an inability to observe—and immediately reward or punish—the outcomes of an organizational activity and (2) an inability to decompose—and reward or punish—the individual persons whose combined actions resulted in some organizational outcome. Latency has a variety of implications for business ethics, many of which are also expressed in the law. Latency is the reason why Hansmann and Kraakman (1991) propose a system of unlimited liability for corporate torts. It is the reason why Enron, WorldCom, the Ponzi scheme of Bernard Madoff, and many other financial debacles reached such epic proportions. Latency is also a problem

that enjoys a number of incomplete solutions. Clawbacks, proportionate fault in class action lawsuits, Superfund cleanups, and vicarious liability are all focused on the problem of latency. Note, however, that such “solutions” create a new injustice as they remedy the old one, burdening actors who were not responsible for an action with the costs of the action’s remedy. The latency problem is significant. The Promethean omniscience necessary to decide whether a shareholder is entitled to the wealth that her shares produce leads me to propose a radically different conception of organizational performance, one that replaces foresight with afterthought.

In ethics, it is widely observed that managers are short-sighted. We recognize that many of the benefits of moral acts accrue slowly, and we hope to convince our students to think in the long-term. Unfortunately, it is unlikely that our students will be able to buck the system so completely, even if they are armed with our very best arguments. Public equities markets and private investment that aims to serve such markets have powerful mechanisms in place driving short-termism. Ignoring these mechanisms is at least a bad career move, and maybe a bad organizational strategy as well. If we want individuals to think and act on long-term motives, we should provide them with such motives, and give them permission to operate in these terms. This means firstly that a system of long-term incentives needs to be provided, and secondly that such a system needs to encourage individual actors to hold each other accountable. This is what I mean by “giving them permission.” I will return to the issue of performance measurement, both economic and social, later in this chapter when I consider the implications of an economy of traceable currency for performance measurement.

Latency presents a special challenge in the development of a moral theory of organizational failure. Morally bankrupt firms can be expected to hide the fact that they ought to fail for a long period of time, and the economic incentives encourage the delayed recognition of justice. The example of tobacco presented above illustrates this risk. A comprehensive solution to the problem of organizational survival must first address the problem of latent costs and the moral indeterminacy of profit.

The Status Quo of Profit Legitimation

The recognition of costs can take years. Novel processes, products, and services are particularly likely to result in human and environmental costs that are not immediately known. Even something as mundane as the installation of a roof results in a long delay between the generation of revenue and the full realization of the roof's expected longevity. It can take years to demonstrate the impact of a chemical on an ecosystem or to understand the consequences of allowing a business to operate in a community. It can also take years for an organizational transgression to be exposed; some never are. Any assertion regarding profit must necessarily be provisional for some period of time, if not indefinitely¹².

If an economic system were meant to achieve certainty regarding the legitimacy of property claims over profits, profits would have to be sequestered an indeterminate amount of time, until they could be distributed with near-certain legitimacy. Under a delayed system, investors would have no incentive to invest. Delays in the distribution of profit would render the system untenable.

¹² Revenue recognition can also be delayed. Individual actions may contribute to successes long after they have been compensated, and some of these outcomes exceed expectations. I set up unrecognized liabilities as a special problem. Latent revenues are also possible, but the topic is not pursued here.

The implications of the moral uncertainty of profit are profound because profit is central to the workings of the economic system as a whole. Profit is often defined as the motivating goal of business and business persons (Jensen 2002). Even if Drucker is correct that other goals, like creating customers, are more appropriate ends for the achievement of organizational performance (Drucker 1974: 61), the minimization of costs and the maximization of revenues are at the heart of the business logic. But if this culminating achievement of profit is merely an incomplete snapshot of a broader normative justification, then many distributions of profit will result in unjustified ownership. For instance, when newly hired CEOs cut research and development, capital expenditures, and pension contributions to falsely inflate their own performance (Harrison and Fiet 1999), the result is a weaker organization, but increased CEO compensation. Is the CEO is entitled to this increased compensation? Contractually, yes. But a broader normative justification of the CEO's action would be sorely lacking. Instead, we say that CEOs should be paid for performance, an aspiration that speaks to efficiency and meritocracy, but also to a CEO's moral entitlement to the profit that she or he receives. As a matter of fairness, it would seem unjustifiable for a leader's compensation to increase as a result of actions that decrease the organization's health. The CEO's action should not justify such an entitlement because her initial claim to the organization's resources derived from her contribution to the organization.

There are entire classes of market participants for whom the profit motive does appropriately characterize how they conceive of their own goals. Capitalists contribute their investment, often through the purchase of securities like corporate stock, and they

hope to recover their contribution through dividends or increases in share value. If profits are morally indeterminate, so are proceeds from dividends and earnings from share price increases. The problem is that these distributions and gains only go in one direction. Once a limited liability corporation has distributed profit or once shareholders have sold their shares, those resources and individuals are no longer connected to the firm. And so, if the firm fails, its beneficiaries are no longer responsible to its victims.

Yet our system of governance and regulation acts as if profit is like every other form of property. This is done by treating the organization as morally substantial through the legal personhood of the firm. Let us say that a large roofing corporation is paid to install a roof, and that the roof comes with a twenty-year warranty. Some roofers may provide such warranties through third parties as a form of insurance, but this particular company is large enough that its customers accept the credibility of its warranty claims. If the roof should leak, the customers would expect to contact the company, not the individual persons who shingled the roof or the manufacturer of the materials used in the project. If the roofing firm were sold, the seller would be responsible for disclosing the outstanding liabilities, including the number of warranties and the historical failure rate of installed roofs. As far as the roof purchaser is concerned, the ownership transfer of the roofing firm is irrelevant so long as the entity with which she deals continues to ensure the long-term integrity of her purchase. This is the sort of arrangement that the corporation was designed to handle, and so long as the organization survives, there is nothing wrong, in principle, with the handoff between investor groups.

There are many areas of contract law that do not permit such a handoff. I cannot, for instance, select another person to live in my apartment and hand over my lease to them without my landlord's consent. It is a peculiar feature of the corporation that once a corporation mediates a transaction, the identities of other parties transacting with the firm no longer matter. Clearly, there are costs that are predictable and thus insurable. The roofing example illustrates one of these. As long as the roofing company has the money, its customers do not care whether the original investors or new investors cover warranty claims. Insofar as these claims are predictable, they are factored into the purchase price paid by the new investors for the firm. The predicted claims are applied as a discount against the future earnings anticipated through investment in the firm, which implies that the original investors incur the cost in either case.

The corporate form and its structure of limited liability provides that shareholders risk no more than the amount that they have invested in the firm for the duration of their investment. The ownership regime is based upon transferable shares that allow investors to consign their opportunity to profit and their (limited) liability to another person through the sale of company stock. It is the buyer's responsibility to understand the benefits and risks of ownership and to decide accordingly, provided that no false claims are made in the course of the sale.

However, when the processes are less regular than the insurance of installed roofs, it becomes more difficult to justify the system of limited liability. In many cases, the buyer's assumption of risk may be objectionable to the other parties who have specific and legitimate claims upon an earlier owner. The victims of corporate malfeasance may

have legitimate claims that are not easily met by the current or future owners of a firm. It may be the past owners and managers who owe them a debt¹³.

Four Arguments for Personal Duties of Restitution

Duties of restitution between stakeholders ought to be specific, temporal, and personal. In the same way that a person cannot send another to serve on her behalf for jury duty, to vote on her behalf in an election, to complete her prison sentence, or to fulfill her military service obligation, a person ought not be allowed to conscript another into covering the ill-begotten gains of her corporate ownership. The claim rests upon four key arguments. First, if corporate ownership results in constituencies receiving property when others have more substantive claims, then that system of ownership fails to uphold the basic premise of justice in holdings. Second, on efficiency grounds, it is preferable that those individuals who benefit from wrongdoing should pay for restitution so that there will not be perverse incentives motivating misdeeds. Third, there are often person-specific duties between beneficiaries and victims of harm, duties that cannot be fully settled by another party. And finally, organizational death can result in victims losing the opportunity for any restitution whatsoever, an injustice that is only resolved if person-specific duties are durable beyond the failure of the firm.

¹³ In a sense, the nature of profit-related obligations affirms the stakeholder approach to corporate responsibility. Phillips (2003b) places the voluntary acceptance of benefits of a cooperative scheme as a paramount concern in his theory. For Phillips, this voluntary participation is the origin of an obligation, “A moral requirement generated by the performance of some voluntary act (or omission)” (2003b: 94). Whether the property claims of stakeholders over the profits are generated by acts and omissions, or by the mere fact of a property relation is of no great import for this account. In either case, obligations properly met generate legitimate claims to the profits of a firm, and unmet obligations do not.

Justice in holdings. If individuals are allowed to transfer their risks in a given period of economic activity while protecting their benefits from that period, the gap results in morally ambiguous windfalls. The question, from property, is whether this good fortune offers any moral justification for the recipient of wealth. The justification cannot rely upon the stochastic process of merely being in the right place at the right time; it must somehow justify why those who profited have more substantive claims than other parties. The aspiration of a property regime is that all resources be controlled by those individuals whose claims upon them are most substantive. If a person were to say, “I exercised my stock options before I knew about the crime,” her statement would indicate her innocence from a charge of insider trading, but it would not affect the moral justification of her profit. The merit of such a justification can only be considered with specific reference to the relative strength of such claims. I examine this particular argument in the following section with reference to corruption at Siemens AG. The analysis is driven by a comparison of shareholder, employee, and victim property claims. Clearly, as a matter of law, a person who sold a share of a stock at the right time without insider knowledge is merely lucky, and I would not argue otherwise. I will, however, argue that the timing of an announcement does not coincide with the distribution of benefits from harmful activities. In the case of Siemens, the announcement of the investigation occurred after years of profits derived from illegal bribes had already been distributed. I claim that these profits and the share prices that they sustained were not morally justified, and that the victims of the bribery, local citizens who paid too much for

products and services, have a stronger claim upon the Siemens resources for this period than the shareholders who happened to sell at the right time.

Person-specific duty: Prior distributions of profit should not be insurable risks if there exists a specific obligation between the beneficiaries and victims of a given act. In the case of organizational crimes, many beneficiaries were not intentionally involved in the criminal act. Nonetheless, the benefit they receive may be sufficient to establish their collective duty to victims. As far as responsibilities go, the fact of an individual's role as a beneficiary of an irresponsible act is only superseded by a direct causal role through act or omission. This sort of claim is often developed within discussions of reparations for slavery. Suppose that we could agree that the decedents of slaves had a right to more wealth than they currently possess, that just as their forebears should have received the promised 40 acres and a mule, so should their descendants receive some compensation to remedy historical injustices. If we could agree on this, the next question would be: who should pay? From the perspective of many critical race scholars, white people who live in the United States have special responsibilities because they continue to enjoy special "white privileges" (McIntosh 2004) and continue to earn the "wages of whiteness" (Roediger 2007). Here the responsibility originates in having benefited from an injustice rather than in any causal participation. I likewise suggest that the beneficiaries of harmful corporate acts owe restitution regardless of the harm. The argument may depend upon the specific nature of the benefit and harm, and it may be justified on either fairness or justice grounds.

Imagine, for instance, that a firm specialized in the sale of gift cards, a profitable business given the relatively high likelihood that the cards would be lost and not used. If the business experienced a sudden spike in the utilization rate of its cards, it might experience serious cash flow problems that might eventually result in the firm's bankruptcy. Is it fair that resources that should have gone to pay for the contractual obligations to the cardholders have instead been distributed to shareholders as profit? No, that distribution runs against the basic nature of profit as a residual, and the unfairness may be said to create a specific obligation between the beneficiary-shareholders and the cardholders. Though the argument is largely couched in efficiency grounds, justice considerations also animate Hansmann and Kraakman's (1991) argument for unlimited liability for shareholders in the case of corporate torts, an argument upon which this case is based.

The second argument for person-specific duties originates in the role-based duties of stakeholders. The obligations of managers to shareholders are widely established, but another set of obligations may be said to run in the opposite direction. As the shareholder responsibility movement moves from the backwater into the mainstream (Dunfee 2003), many shareholders have begun to frame their investment decisions through an ethical lens (Glac 2009). Their strategy may only be effective if they achieve a critical mass of investment, which they are unlikely to do (Hudson 2005), yet it also seems that they have no other choice if they want to take the long view (Sethi 2005). Shareholders put their capital at risk when they choose to invest in stocks. One way of understanding this risk is as a role-based responsibility that shareholders assume in order to stake a claim on the

organization's profits. Responsibilities are thus reciprocal between the investor and her firm, and through the firm to other parties who have established claims to the organization's resources (Phillips 1997).

If an investor in a petroleum company benefits from the lax safety and environmental protections that the company utilizes, the investor profits because costs are reduced. And if one of that oil company's deep-sea wells begins releasing massive amounts of oil into an ecologically sensitive bay, that investor would be partly responsible. The investor's responsibility is not merely an artifact of the legal arrangement that describes her liability; it also derives from the benefit that she obtained through the irresponsibility.

The collective responsibility of investors may also derive from their role in inspiring the harm. If the investors established a culture that privileges short-term performance over other goals, they may also be remote causal agents in the harm. When investors collectively push for cost reductions that result in corners being cut, each investor has some causal responsibility for the harm that was collectively inspired.

Efficiency: The alignment of incentives within an economic organization requires that responsibilities and consequences be personally and temporally located among the agents who make decisions. Motivational efficiency has been a central theme for economists for the past half-century (Leibenstein 1966), as a problem of inducing effort (Hart and Holmstrom 1987) and appropriate decision making (Diamond 1998). In the standard case, the objective is to encourage an individual person ("agent") to pursue the interests of another ("principal") by measuring and rewarding the performance of the

agent. The model is most often applied to the relationship between managers and investors, but it is extensible to the relationships between workers and managers, suppliers and purchasers, and other transactions where monitoring is costly.

Private property regimes are one established strategy that aligns individual incentives with a regime of use-oriented property stewardship. The key rationale for a system of private property is that by allowing individual persons to have exclusive rights to resources, these individuals will be motivated to care for the resources and to make them as useful as possible (de Soto 2000). If individual persons internalize the costs and benefits of discrete property management decisions, better decisions will be made regarding these resources.

The same aspiration holds within a property theory of the firm, but the separation of ownership and control (Berle 1933) makes the aspiration seemingly unobtainable. Attempts to align managerial incentives (Jensen and Murphy 1990) under the auspices of agency theory (Jensen and Meckling 1976) have backfired to provide unjustifiable increases in executive compensation that are only marginally associated with firm performance (Bebchuk and Fried 2004). And while the long-term incentives of agency theory have yet to be realized in corporate governance or regulation (Bhagat and Romano 2009), even the most creative compensation agreements cannot adjust for the skewed reality of latent costs. It is deeply problematic on efficiency grounds that individuals are motivated to act on short-term considerations because others will bear the costs, and this problem is only partially addressed by long-term compensation schemes. Specific duties

between beneficiaries of organizational harms and victims of organizational harms are necessary for the alignment of incentives.

Organizational death: The longevity of the firm is not guaranteed. Firms close for various reasons, and numerous stakeholders are left without a nexus for their contracts. Larger stakeholders may have an incentive to become involved in the bankruptcy proceedings and to claim available resources. But some parties are likely to be left with substantive rights that no longer pertain to any person's or entity's related duty. An unscrupulous entrepreneur could legally close her business, and reopen under a new name, discarding the liabilities of the old firm. These so-called "phoenix firms" allow entrepreneurs to recurrently escape debt and customer liabilities, and have been the subject of some debate in the UK (Miller 2006). It is not at all clear why duties should be abrogated when organizations fail, and the pool of resources distributed through a bankruptcy is often a small portion of what the organization owes. Organizational death gives a clear reason why responsibilities cannot be ultimately located in the organization. There is no good rationale for the simultaneous collapse of the rights and duties that occurred under the umbrella of the firm. The special issue of organizational death motivated my initial theorizing on entitlements to profit. It also motivated Hansmann and Kraakman's argument on tort liability in which they propose shareholder liabilities for torts that a firm's estate fails to settle (Hansmann and Kraakman 1991:1896), affirming the importance of personal liability as a stopgap for failures in corporate liability.

Contractual Limits on Restitutive Duties

These four arguments affirm the view that organizational duties must be personally and temporally located. This does not require a drastic redefinition of the nature of business ethics within a firm. It requires no more than the basic notions of decency, respect, fairness, rights, and human flourishing would require of a moral manager. Nor does the argument require a drastic extension of the nature of tort liability within the law itself; the argument redirects responsibilities rather than creating them.

Along these lines, the basis of contract still warrants respect. Some parties agree to bear costs *ex-ante*, and they have limited cause for claiming restitution from the firm. As a rule, parties who contract with a firm have an opportunity to negotiate terms as they choose and should not be able to claim resources that exceed the negotiated terms (Hansmann and Kraakman 1991). But the rule has exceptions; for instance, the doctrines of unconscionability, duress, and misrepresentation call the contract into question, and the values of fairness and protections of human rights cannot be discarded for the imagined realism of optimal contracting.

Even externalities are sometimes known and consensual. If a host community unanimously approved zoning for a new factory after being informed of the various nuisances of the facility, these nuisances would not impugn shareholder entitlements to factory profit. It would be a different matter if the factory's emissions caused unanticipated respiratory problems. If the laws were just to begin with, entitlement to profit does not require a radical redefinition of contractual, criminal, and civil liabilities.

However, some adjustment may be necessary in the targets and timing of these established legal duties.

Thus far, I have argued that profit is characteristically different from other forms of acquisition and exchange and that an immediate normative assessment of the legitimacy of profit is not possible because profits are conditional on the revelation of to-be-discovered costs. What is fundamental to this treatment of profit indeterminacy is that profit, as we understand it, should result from the revenue in excess of *all* costs. Included are any costs associated with crimes committed by the organization and any externalities that the firm has foisted onto surrounding communities or the environment.

Illegitimate Allocations and the Modern Firm

Many of the corporate acts that justify disbanding a firm are criminal. The criminal law establishes society's expectations for individuals and corporations, and insofar as these agents and entities fail to meet expectations, the profits that are generated may be illegitimate. In this section I will argue that certain cohorts of employees and shareholders should have financial liabilities for the firm's nonconforming behavior. The argument is easily extended to torts as well.

Most business ethics frameworks would reach the same conclusion about Siemens AG, and its global strategy of corruption implemented from 2001 to 2007. Many would describe the \$1.6 billion settlement as a comeuppance. Dunfee and Donaldson's Integrative Social Contracts Theory (Dunfee and Donaldson 1999) would find an abundance of violated norms, including the authentic norms of communities in which Siemens operates. Though there are marginal cases like *guanxi*, the exchange of favors to

build networks, where it is sometimes culturally necessary to participate in gift giving exchanges that would seem like bribes in other cultural contexts (Dunfee and Warren 2001), bribing public officials to win contracts violates most international codes of conduct and runs against a concerted effort among businesses to curb corruption from the supply side. Kantians who value truth-telling (Bowie 1999), would find the inconsistency of Siemens' actions to be particularly troublesome. Siemens was a member of Transparency International, an organization whose stated purpose is to curb corruption. Thus, Siemens' actions were dishonest to the point of hypocrisy. Not surprisingly, Transparency International asked Siemens to withdraw in December of 2007. A stakeholder analysis, one based upon fairness, would note the unfair advantage that Siemens enjoyed over its competitors, and also the unfair prices paid by stakeholders: public sector customers and their taxpayers. The illegality of Siemens' actions are blatant enough that even Milton Friedman, who rejects the notion of corporate social responsibility, would find Siemens' law-breaking to be reprehensible (Friedman 1962; Friedman 1970).

Despite the near-consensus view that Siemens was in the wrong, business ethics and criminology literatures suggest widely divergent post-hoc regulatory responses. The largest controversy concerns the question of entity vs. individual fault, and the related question of whether it is appropriate to punish Siemens AG as an entity or only to punish the agents within Siemens who were knowingly engaged in acts of bribery. These are open debates in business ethics, and the perennial scandals of corporate malfeasance are

likely to sustain them for years to come. Yet these debates take us far afield from the commercial nature of the crime itself, and from the corporate structure that perpetrated it.

I suggest that we return to the commercial understanding of the crime-benefit process, and to the property rights that have been misallocated as a byproduct of the crime. In so doing, we set aside the question of punishment, and focus on the question of responsibility for restitution. If it is agreed that a system of property should allocate holdings to those individuals whose claims are most substantive, then a productive exercise may begin with an analysis of the relative property claims of the key parties in the Siemens bribes.

Siemens' illegal acts resulted in some people earning more than they should through unjust enrichment and some paying more than they should through unjust impoverishment. Two questions emerge: who should pay, and what should be done with an entity that allowed a crime like this to occur? Clearly, the perpetrators of the crime may have some direct liability for their illegal actions, but what about the investors and employees who unknowingly profited from the wrongdoing? In some ways, the claims of these investors and employees may be akin to the purchaser of a stolen bicycle. If the person bought the bike from a thief, that person has a relatively substantial claim over that bike relative to the thief and a relatively unsubstantial claim relative to the bike's original owner. The strength of these claims is only comprehensible when they are weighed against each other.

To weigh the claims of Siemens' shareholders and managers, we must first identify the parties with substantive claims. To do so, we can consider a counter-

historical narrative: what would be different if Siemens had not chosen to bribe public officials? Two economic effects of bribery are an increase in the price paid for goods sold and the sale of inferior goods at a price that is unjustified by their quality. In either case, an open and competitive procurement process would have reduced the price paid for goods procured. This implies reduced revenues for Siemens and reduced costs for the procuring governments and their taxpayers. Insofar as the bribes ought not to have occurred, Siemens' profits are overstated. A portion of Siemens' profit should actually be understood as being owed to the taxpayers of the procuring government. Siemens absconded with revenue that it should not have received, and thereafter, Siemens' shareholders and employees benefited from the revenue. Siemens' claim to its profits is weaker than the claim of the citizens who were forced to pay an unfair price due to an illegal act. These citizens are victimized twice over because the bribed officials, thanks to their newfound wealth, become even more difficult for the citizens to monitor or depose¹⁴. Siemens' competitors are also victims who may have lost the opportunity to do business because they were unwilling (or less willing) to bribe.

Let us focus on the citizens as victims, and on the legitimacy of their claim to Siemens' 2002 to 2007 profits. In this account, it is important to locate a stakeholder group in time. Modern corporations are disconnected from individual persons. Employees come and go from firms that persist over time. Delay in the recognition of irresponsible acts results in a different subset of individuals incurring the costs of a transgression from those who derived benefits from that transgression. Thus, responsibilities might be

¹⁴ In this spirit, Colin Leys translates Dumont's protest against Africa's "Bourgeoisie of a new type, which Karl Marx could scarcely have foreseen, a bourgeoisie of the public service." (Leys 1965).

localized to “cohorts” of specific stakeholder groups. My account will focus on the responsibilities of the 2002-2007 cohorts of shareholders and employees.

Investors.

What are the special obligations of shareholders? In a standard analysis, shareholders have no special responsibilities to each other or to the firm as a whole. Their choice to invest obliges others within the firm to act in their best interests, but the responsibilities are not reciprocal. Whereas it would be inappropriate for managers to privilege one shareholder over another, courts have affirmed the rights of shareholders to charge a price premium without sharing that premium with other investors¹⁵.

The non-standard analysis finds that shareholders are responsible for the incentives that they provide within the market. The responsible investment movement has amassed a substantial pool of capital under the auspices of this claim, and many investors feel intuitively uneasy with the prospect of benefiting from the most malignant firms. Others seek to provide additional capital to the most responsible companies, hoping that they will outgrow their peers. My argument does not require a strong shareholder responsibility interpretation because it works on the basic premise that a shareholder’s entitlement is limited to the residual profit of a firm.

Most of the Siemens investors were unaware of the firm’s illegal and corrupt behavior. Nonetheless, these investors profited from the firm’s illegal provision of business through public corruption. Without corruption, Siemens profits would have been substantially reduced. The question is whether it is appropriate for a somewhat different

¹⁵ E.g. *Zetlin v. Hanson Holdings, Inc.*, 48 N.Y.2d 684, 397 N.E.2d 387, 421 N.Y.S.2d 877 (1979).

group of shareholders to incur the cost of the corruption fine in a later period, and if it is sufficient for this cost to be incurred indirectly through the centralized control of Siemens. In other words: which of the investors should pay and how should the costs be distributed?

The limited liability company, coupled with the regulatory framework that governs the sale of public securities, would suggest that the company itself should pay. Presumably, the company's incurred cost is passed onto the investors. Specifically, the investors who own the firm while it is under investigation and after it has settled the case. The cost is realized in two different time periods: first, during the investigation when the market responds to the uncertain liability and again after the negotiated settlement has been publically disclosed. The cost is not incurred by shareholders who exited the firm prior to the discovery of corruption. In contrast, Hansmann and Kraakman suggest an information-based rule that focuses liability among shareholders at the earliest of three moments: when the information of a likely tort filing became known to management, when a tort was actually filed, or when the firm "dissolved without leaving a contractual successor" (Hansmann and Kraakman 1991:1897). Though this approach improves upon the delayed burden of a judgment, it does not address the specific problem of profit legitimation because it continues to allow parties to profit from criminal or harmful corporate action until its discovery. Under these dominant institutions, the maximum cost that can be incurred by the shareholders is the price that they paid for their shares. Should the firm be bankrupted and control shifted to creditors, those creditors would have no claim to make upon the shareholders beyond the capital that they had already contributed

to the firm through the shares that they owned. Their lost investment would be as much as they could lose.

In legal scholarship the standard alternative to limited liability is so-called “unlimited liability.” This would result in the shareholders being fully liable for Siemens irresponsible acts, not just through investment, but also through personal wealth. Limited liability protections have been the subject of significant legal debate because of the tendency to promote risk-taking. Hansmann and Kraakman’s rejection of limited liability for corporate torts responds to this concern:

There may be no persuasive reasons to prefer limited liability over a regime of unlimited pro rata shareholder liability for corporate torts...Changes in technology, knowledge, liability rules, and procedures for mass tort litigation have for the first time raised the prospect of tort claims that exceed the net worth of even very large corporations. Environmental harms, such as oil spills or the release of toxic materials, are one potential source of massive liability; hazardous products and carcinogens in the workplace are others. At the same time, the mergers and acquisitions movement of the past decade has converted many large corporations that were formerly publicly-traded into highly leveraged closely-held firms; these firms, which have proportionately small net assets and are under great pressure to maximize cash flow, have an unusually strong incentive to engage in excessively risky behavior. Already, strong empirical evidence indicates that increasing exposure to tort liability has led to the widespread reorganization of business firms to exploit limited liability to evade damage claims. The method of evasion differs by industry. For example, placing hazardous activities in separate subsidiaries seems to be the dominant mode of insulating assets in the tobacco and hazardous waste industries. In contrast, disaggregating or downsizing firms seems to be the primary strategy for avoiding liability in the chemical industry and, more recently, in the oil transport industry. Indeed, one study finds that, over the past twenty-five years, a very large proportion of small firms entering all hazardous industries in the United States are motivated primarily by a desire to avoid liability for consumer, employee, and environmental harms.' (1991: 1879-1880)

Limited liability promotes a legal game of risk shifting that minimizes the pool of resources available to plaintiffs with legitimate claims. Risk-shifting strategies differ, but the intent has little basis in morality or law.

Liability could be distributed pro-rata, in proportion to one's investment, or through a scheme of joint and several liability where every individual party would be responsible up to the entire liability. There are several important efficiency arguments against a system of joint and several liability. One problem is the divergence in risk incurred by different parties who invest in the same firm depending on personal wealth (see Halpern, Trebilcock, and Turnbull 1980). Though there are enduring critiques of diversified ownership as a source of weak governance (Roe 1994), it is nonetheless the case that the diversified ownership paradigm that dominates investment practice is incompatible with a regime of joint and several unlimited liability. Proponents of pro-rata liability for corporate torts argue that liability insurance is available to monitor and equalize the risks thereby alleviating the stress placed upon share price by shareholder inequality (Hansmann and Kraakman 1991: 1879). However, this is only a partial remedy, as different shareholders would wish for different qualities of coverage, affecting the same result as a difference in prices. I will deal with the distributional implications in detail below. Unlimited liability seems to have its own perversity. The idea that any person, irrespective of the extent of their involvement in a firm, should be liable to the point of personal bankruptcy seems to lack any standard of proportionality. And yet, the dominant standard of proportionality results in costs incurred by the successors of those who benefited from inappropriate behavior. I suggest an alternative approach that aggregates the benefit received by individuals from the firm's profits during the time when the irresponsible acts were falsely contributing to entity profitability, and distributes duties of restitution in proportion to benefits received.

As I have argued above, there is a sense in which the shareholder's responsibility should not be insurable because of the specific duty between beneficiaries of harm and those who have been harmed. The strongest critiques of nonspecific fault concern efficiency and victims' rights. When the wrong investors are charged for the impropriety of a company it provides perverse incentives for investors and managers who can gain from the organization's misdeeds without incurring the costs. Such incentives are inefficient; too much capital is pushed into bad firms and too little into good ones, and insiders are relatively uninspired to play the governance roles that are required of them.

The victims' rights argument arises from direct responsibilities owed to victims by beneficiaries, as described above. These interpersonal obligations are unmet by random or anonymous restitution. Were I to hit a pedestrian while riding my bicycle and to injure her arm, my obligation for restitution to her would not be met if I volunteered at a hospital and helped others. This is the case whether the harm done to the pedestrian was intentional and therefore criminal, or accidental and therefore subject to civil liability.

Unlike the bicycle accident, corporate crimes and torts make it difficult to identify a blameworthy causal agent. Even if a causal agent can be identified, they often lack the resources to remedy the harm that they caused. Yet the non-specific and non-causal role that shareholders and employees play in crimes and torts does not preclude them from playing a role in the restitution for those crimes and torts. Duties of restitution may derive from social roles, like "manager" or "shareholder," duties may emerge from a contractual obligation taken consensually as a part of filling one of these roles, or duties may also

derive from the benefits received. It is preferable that those who gained from a crime pay, and that those who lost be paid¹⁶.

In this sense it does not matter whether the liability is criminal or civil. We need not equate the shareholder with the perpetrator of a crime or harm. Rather, we should reduce our understanding of restitution to something that is a basic part of ensuring the legitimacy of corporate resources that have been distributed. The civil liability standard is the most appropriate basis for restitution in the wake of organizational misdeeds. Most criminal laws require that the perpetrator be of a “guilty mind” (*mens rea*) in order to prove fault. In civil liability, the standard does not require an intentional act. Even an accident where there was negligence is sufficient cause for a legal remedy. Let us assume that none of the Siemens shareholders were aware of the bribery. To intend bribery requires some forethought, which the shareholders lacked in the case of Siemens. Even without intention, according to the civil liability standard, the shareholders may still be responsible for restitution. This is consistent with what actually happens under the current system. Shareholders are already on the hook for the firm’s liabilities through their interest in the price of the firm’s stock and its dividends. In the current paradigm, the firm’s civil and criminal fines depress the share price of the firm and distribute costs among shareholders in proportion to their ownership stakes.

The firm’s liability is already being delivered to shareholders. The trouble is that it is delivered too late and therefore to the wrong shareholders. A prior investor cohort should incur the criminal fine. A system that charges those shareholders who benefited

¹⁶ For a history of the role of victims in American criminology and a critical take, see Dubber (1999) and other articles published in that volume through a related symposium.

from the illegal behavior seems intuitively more defensible than a system that imposes the costs on investors who neither knew about nor benefited from the crime. Given that costs related to corporate wrongdoing should be incurred by the right individuals to avoid perverse incentives and to facilitate direct restitution between those who benefited and those who were harmed, I suggest that the shareholders who owned the company during the years when it was actively bribing public officials be fined, and I suggest that they be fined in proportion to their profit from the firm¹⁷. In selecting the time period, investors should be identified based upon the duration through which the firm benefited financially from the impropriety. Investors who held Siemens stock during a period between 2002, after the first profits from proven bribes were realized, through late 2008, when the stock price bottomed out partially in response to the scandal and the related settlement are candidates.

The property-based case is not punitive, and I see no reason why parties who unknowingly participated in a legal transaction should be punished symbolically. However, parties who have more substantive claims than these investors are well within their rights to expect restitution from the unjustly enriched investors. In the case of bribery that results in more profit than would otherwise have been possible, the stronger property claim originates with the taxpayers whose governments overpaid for goods and services.

Having located one stakeholder cohort who should be held liable for Siemens impropriety, the extent of this liability is at issue. What is the amount of liability that each

¹⁷ The actual amount of the settlement may derive from the harm or externalized costs (Polinsky and Shavell 1994), but the distribution of settlement should be proportioned based upon individual profits from the firm over the relevant period.

historical investor might be said to owe? I have already argued against a joint and several, “unlimited liability” approach, which I believe fails to acknowledge the different intensities of contact that different investors have with the focal firm and its ill-begotten profits. I have also argued that the amount should be restitutive rather than punitive. But there are substantial obligations that can be limited by the depth of the person’s financial engagement with the firm. In my view, the maximum liability per share should be no greater than the sum of all dividends distributed during the period of corruption and the share price at the time that the stock was sold or if the share is still held, the price when the liability is calculated.

Such a system would allow the victims of corporate wrongdoing to receive restitution from those who profited from the wrongdoing to the amount of profit that they earned. It also includes their liability at the time of sale. Siemens distributed \$7.61 in dividends per share from January 2002 through January 2007. With 870 million shares outstanding, these dividends alone would be sufficient to pay the firm’s fine several times. But I do not suggest that the burden be distributed exclusively among shareholders to those who earned dividends. Under an investment paradigm in which some funds hold for very short periods of time, the relevant question should focus on the overall profit or loss from the ownership, not the length of time during which the share was held.

Consider two hypothetical investors. The first held the stock from March 9, 2007 to December 28, 2007, buying at \$105 per share and selling at \$157.10 per share. The second held the stock from June 10, 2005 until March 6, 2009, buying at \$76 per share and selling at \$49 per share. The first earned 50% profit, and the second had her value cut

in half. The second investor held the company for longer, received more dividends, and seems to have a more substantial relationship to the firm. But should her liability be greater than the first investor's? In the current system, the duration of ownership is the most important source of exposure to liability for entity-level improprieties, and shorter-term investors are less likely to bear these costs. This is the reason why we focus on profits from malfeasant entities, thereby obliging the investors who profit (irrespective of duration) for the losses incurred. In fact, the second investor has already paid through the devaluation of her shares, and the substantial loss in the value of the stock is probably sufficiently punitive.

Though we need not resort to a welfare argument, two welfare considerations may be worth attention. First, it is often wealthier investors who are included in actively traded hedge funds and other shorter-term investment strategies. Whereas so-called "retail" investors and mutual funds "own the market" and can only exit companies slowly at substantial expense, this implies that in the current system retirement funds, pensions, and middle class savings are more exposed to corporate crime than elite wealth. An even more basic welfare claim derives from the fact that within this one company, one investor already lost, and the other gained. We do not say that the losses were "ill-gotten," we say that these losses were deserved. But we do say that the profits were "ill-gotten" and we have good reason to expect that they be subject to reclamation.

The restitution obligations of shareholders shifts firm liability away from the last responsible holder. The shift has very important implications for organizational failure. Imagine that Siemens' bribery had continued for fifty years instead of five and that its

overall criminal obligations were \$16 billion. Such a judgment could easily bankrupt a very large firm that may not have resources available to pay the fine. The firm would be bankrupted, the shareholders would get nothing, the creditors would take control, and many of the firm's assets would be spun off to recover debt. The resultant process would be far more disruptive to the firm and the economy than to recover the wealth from all of those parties who had benefited from that firm along the way. A recovery that drew from 50 years of shareholders would be widely dispersed, and would have a deep reputational effect on the firm, but insofar as the firm remains capable of producing profit in a worthy manner, the settlement would not threaten the future of the firm. The firm's legacy would suffer the most violent blow.

I have argued that shareholders who benefited from crimes have a weaker claim to Siemens' profits than the victims of the crimes. While I do believe that it would be appropriate for this cohort of individuals to pay the remedy, there is another group whose claim on Siemens' profits is even weaker.

Management and Employees

Many of Siemens' employees were not involved in the bribery, and were unaware that it was taking place. The only difference between these individuals and the investors is that they have a special perspective on the firm's internal normative environment, and are especially well situated to anticipate its weaknesses. While the deviant behavior may not have been directly observable, employees have access to better information than the average investor, and if the corporate culture lacks the self-regulatory wherewithal to control deviant agents, employees are well positioned to be aware of this laxity.

Employees may not be able to observe the crime itself, but they can observe the culture that allowed it to happen.

In other respects, the situation of employees is akin to that of shareholders. Employees have a claim upon the resources of the firm, both through compensation and through profit sharing incentives, and that claim is justifiable insofar as the individual has a more substantial claim than other parties. Like shareholders, the profit claims of these employees are weaker than the competing claims of governments that overpaid in Siemens' contracts, because the profit was miscalculated when it was distributed, and so, like shareholders, employees from the relevant period have some outstanding obligations. The question of how to distribute and limit employee obligations is even less established and more controversial than unlimited shareholder liability.

On the narrowest interpretation of the nexus of contracts view of the firm, all employee compensation is contractually defined and should supersede the residual claims to profit made by shareholders. The shareholder primacy debate specifies this sort of ordering, and it is often argued that shareholders enjoy their primacy because everyone else comes before them in the way that corporate obligations are met. However, this interpretation is problematic because employee compensation is often determined through contributions to firm performance based upon a share of firm profit. If firm performance has been unjustly determined, then employee compensation has been unjustly exaggerated. As such, any increased incentives at Siemens during the relevant period from 2002 to 2007 are suspect, as are performance-related incentives like bonuses

that were “miscalculated” for that period¹⁸. Profit-related earnings of Siemens’ employees provide weaker moral claims to wealth than the claims of the victims of Siemens’ crimes. In general, liabilities should be scaled according to the benefit that individuals received from the firm, and capped before the costs borne by the person result in unjust impoverishment.

Though most of the employees and managers were unaware of the bribes, some were aware or actively engaged in the corruption. Managers are able to exercise considerable control over the firm. The governance structure of the publically traded corporation affords substantial leeway to managers in their conduct and the decisions that they make on behalf of the firm. Courts generally avoid second-guessing managers in matters of “business judgment” and thus sustain the separation between ownership and control (Berle 1933; Easterbrook 1991). Because investors are largely separated from the control function of the firm, it makes sense to look elsewhere in understanding the decision-making apparatus (and perhaps *mens rea*) of the firm. For this, we must look to managers.

¹⁸ It may be unfair for employees whose work tends to be compensated through profit-related bonuses to be fined when other salaried employees are not. The structure of compensation schemes is often determined by the kind of work that someone does and this structure is not entirely consistent with the extent to which that person has benefited from an organizational transgression. I have no argument for the innocence of salaried employees or for the substance of their property claims relative to the external stakeholders. However, no simple calculus will determine how much they should pay. One might begin with the premium paid to that employee relative to similarly trained employees in other firms. Robert Frank has noted the price that socially minded lawyers pay in order to take the “moral high ground” (Frank 1996), a price which can also be conceived as a premium paid to individuals in order to get them to do morally reprehensible work. Ideally, an employee’s objectionable pay premium would share in the cost of an organizational transgression.

I will say more below about entity-level fault and the ways in which managerial decisions come to make a firm liable for their actions, but here I will focus on the managers as individuals and their personal obligations in the wake of a crime. My objective is not to provide a new justification for criminal law regarding economic crimes. Such justifications have already been written (Ayres and Braithwaite 1992). There is little controversy in the view that individuals are responsible for their actions, even when those actions occur within an organizational hierarchy. This is particularly the case with respect to bribery. For example, The Foreign Corrupt Practices Act, one of the United States' relevant legal provisions on bribery, specifically informs managers that they will be personally liable for fines for the bribes that they pay, and that this personal liability cannot be insured by an employer.

Unlike the property argument up to this point, which has relied upon the special nature of profit as a residual claim, criminal acts may directly alter the rights that an individual has to any compensation whatsoever. Other than the sorts of personal affects that might be brought into a prison, a community can take property away from an individual in the name of deterrence as a form of punishment. If the goal is restitution, then other limits may be in order. For example, it might be reasonable to expect an employee or manager to return or eventually repay all compensation received during the period of criminality, or only that in excess of the median income of the person's home country. The regulation of criminally liable individuals does not require a property justification because their crimes are already regulated by law. However, there is something to be said for bringing all of those who benefited under the same corporate

liability, making restitution through fines to all of them, and then levying punitive damages and sentences on the cabal of individuals who actually bribed, funded bribery, or hid funds to make them available for the payment of bribes.

Once again, employee liability for organizational transgressions has significant implications for organizational failure. Like the shareholders, when past employees share in the cost of a transgression, current employees are able to move beyond the misdeed without the abrupt transition that would otherwise be necessary. The firm's reputation suffers, as do the savings accounts of some of its longer-standing employees, but in the standard case there is little threat to the firm's future. The cases in which the firm's future is under threat present a profound indictment of the firm's productive system and its legitimacy as a source of profit.

Faulting the firm

Unlike approaches to corporate wrongdoing that assign blame only to individuals (Fisse and Braithwaite 1986), thereby reducing the entity to the properties of its individual parts (see Quinton 1975), I take the organizational structure as substantial. However, I do not think that it is sufficient to distribute fault to the entity-level, and aim the regulatory force at the firm (Laufer 2006). While these two approaches to corporate and individual level fault dominate legal and business ethics conceptions of corporate crime and collective responsibility (May and Hoffman 1991), I propose a hybrid position that seeks restitution from individuals and entities that benefited from corporate criminality as it occurred, thereby shifting the emphasis to locate responsibilities among stakeholder groups who were responsible at key intervals in time. This beneficiary-

oriented model sidesteps the issues of blameworthiness that animate justifications for organization-level punitive action, and instead focuses on the legitimacy of ownership within an economic system. If other parties have a more substantive claim upon resources than a given stakeholder, I argue that they have a right to reclaim the resources that they deserve. I argue for reclamation on efficiency and justice grounds, and consider the legal and financial institutions that reclamation requires.

Organizations differ in how decisions are made and in the distribution of knowledge. Some organizations are top-down so that most individual behavior is the product of a top-level strategic decision or general organizational policy. Other organizations permit substantial individual or departmental autonomy. The dominant legal standard of organizational fault, vicarious liability, assumes a tightly controlled organization. Under this doctrine, the firm is liable for whatever its agents do on its behalf. But as William Laufer notes in his book, *Corporate Bodies, Guilty Minds* (2006), courts have been uncomfortable with this standard since its adoption. Laufer seeks to develop a fault standard that captures the essence of “what makes a corporate crime an organizational crime rather than a crime committed in an organization by an agent” (2006: 70). His proposal, constructive corporate fault, looks to a firm’s policies and procedures to evince the fault of the entity.

Siemens provides a challenging application of the theory of constructive corporate fault. Laufer maps organizations onto the four mental states defined in the model penal code: purposeful, knowing, reckless, and negligent¹⁹. Siemens is a difficult case for

¹⁹ Model Penal Code § 2.02 comment at 230 (1985)

Laufer's approach because of the divergent positions of individuals within a large firm like Siemens AG. Laufer acknowledges this problem when he speculates that most of the firms that are criminally liable for "purposeful criminal acts" are small firms existing solely for the purpose of committing a fraud. This acknowledgement seems incongruous with the construction of criminal fault. Insofar as a corporate criminal fault has been "constructed" it should not require that all agents within a firm be faulted for a crime as individuals, yet this is one of the aspects noted in the case of A.R. Baron & Co., where, "Convictions were obtained across the entire corporate hierarchy" (2006 : 79). It is clear that within Siemens, funds were allocated for bribes within those departments where the bribes could do the most good. By my reckoning, this implies a purposeful strategy of bribery. If we understand purposeful corporate acts as Laufer does,

"Purpose reflects motives, aims and objectives that accompany intention. A purpose is a reason for doing something or an explanation of one's action or intention. The corporation did X to accomplish this purpose.... Action is purposive, and most culpable, when it is one's conscious object (desire) to engage in an act or cause a particular result." (2006 : 78).

The fact that slush funds were created for bribery gives a strong indication of foresight, and the fact that they were targeted for key projects resulting in \$1.1 Billion in profit would seem to square them with profit motive, and even to demonstrate that they were allocated with some eye to efficiency.

Nonetheless, Siemens is a very large company, and only a few of its employees were directly involved in the bribery. From what we know about criminality within organizations (Baker and Faulkner 1993), clandestine activity is only disclosed to a very small group of people. It would seem that this was the case at Siemens as well. Can we

ascribe an intentional state to an organization when it was a secretive cabal that led the organization astray? Laufer proposes that we can, and I agree in a qualified sense.

Let us say that we have two choices: (1) only the agents who can be proven to have actively participated in criminal acts of bribery at Siemens can be punished or expected to pay restitution (2) criminally liable individuals will share fault with Siemens, the entity and the company's liability will be paid through a very large fine, in addition to restitution. If this is the choice that we face, then I stand with Laufer in supporting the latter option. As I have argued above, many employees are aware of the regulatory laxity of the organization, and the investors do not change so much over five years that the fines are totally misplaced when applied to them. Moreover, that is one of the risks that they take by investing in a corporation under the current system of governance. Yet, given a third option (3) that would result in non-criminal restitution being repaid by beneficiaries, such direct reclamation would be a substantial improvement over the other two alternatives.

The comparison of these three options is a bit of a red herring because it shifts us from the realm of criminal punishment to the realm of civil or criminal remedy without acknowledging that in this shift the controversy went away. The critique pertained to punishing corporations; forcing them to pay what they owe to others was never up for debate. But the arguments are more related than one might think. If it were the case that (a) punishing corporations provided deterrence from individually criminal acts and that (b) such deterrence could not be effectively provided in any other way because organizations and the distribution of profit provide many beneficiaries of organizational

misdeeds with an escape route, then we might agree to punish firms on efficiency grounds. This may result in certain injustices, such as people incurring fines who do not deserve them, but this may be a regrettable moral remainder from the best arrangement available to deter organizational misdeeds. It is only after we introduce the option of a more reliable system of personal accountability that that the deterrence justification for corporate punishment becomes untenable. Once we learn to seek restitution from the right people, we might not need to punish collectives that include the innocent²⁰.

So far, my argument is outlined between the entity and the individual at the stakeholder-cohort level of analysis, but this level identifies individuals more often than entities. There are four key arguments for identifying individuals. First, direct reclamation maintains the legitimacy of the financial system. Many business ethicists have asserted the harm principle as the first rule of economic life: “Do no harm.” And one way in which they reinforce this rule is to suggest that firms should start by trying to obey the law²¹. If the economic system is to affirm this rule in the most meaningful sense,

²⁰ By punishing the innocent, I mean levying fines against an organization that burden parties who should not be financially liable for the organization’s misdeeds because they were neither beneficiaries to nor participants in the crimes. Some common forms of punishment could never be justifiably applied to such innocents. For example, it would never be appropriate for a non-participant in the crime to be incarcerated or subjected to corporal punishment for the misdeeds of her peers. I take fines to be different, and I take the corporation to be a punishable entity until a proper system of individual-level restitution can be imposed to ensure that the right agents incur costs at the appropriate level.

²¹ The harm principle, a concept borrowed from philosophy and tort law, is arguably one of the moral minimums of business practice. Donaldson suggests that the corporate corollary duties to individual rights require that multinational corporations avoid depriving individuals of their freedom of physical movement, freedom of speech, physical security, right to not be discriminated against, right to subsistence, and other basic rights. For some of these Donaldson also suggests that firms should go beyond to “help protect from deprivation” (Donaldson 1989: 86). Arguably, the harm principle is slightly overstated. Many business dilemmas result in harm irrespective of the path taken, so harm would seem to be rather unavoidable. It is perhaps somewhat clearer to suggest that business should, “leave no harm un-remedied.” Firms should, on

then people must not be allowed to profit without paying for any harms that occur in the profit-making activity, irrespective of whether they had the prescience to realize that criminal scrutiny was drawing near. Second, direct reclamation sends a message that is distinct from the humdrum of investment life. Those who profited from the Siemens corruption between 2002 and 2007 would be made to consider a portion of their wealth as illegitimate upon receipt of a bill for the settlement. Such a message would give pause to a number of agents, who would then have an opportunity to consider their own complicity and be inspired to motivate more responsible organizational acts in the future. Third, finding the right individuals changes the structure of incentives within the broader economy, so that individuals do not benefit for misdeeds that are done on their behalf and with their pecuniary interests in mind. And fourth, the reclamation of profits from those who benefited encourages the current members of Siemens to fully disclose the extent of wrongdoing revealed in their own internal investigations to purge the organization of its misdeeds and to push as much of that cost upon those who are outside of the firm. The human substance of organizations changes over time, but the need for individual agents to protect the firm's good name does not. One way to get an organization to fully acknowledge the misdeeds that occurred within it is to bring in new individuals whose incentives are not determined by prior misconduct.

Entity-level fault and punishment relates to failure in two specific ways. First, if a large enough fine or settlement burdens a firm that firm will be forced into liquidation.

Thus, entity punishment can become a kind of corporate capital punishment. The capital

this account, internalize all costs and seek consent in all business transactions. This is, however, more expansive than the norms that Donaldson proposes for business based upon the rights that businesses should avoid depriving.

punishment of corporations does not raise the same moral issues as the capital punishment of individuals, but it does raise a set of important considerations that are unique to it. Partial capital punishment of persons is not possible, but it is possible to strike down an aspect or division of a business without destroying the larger whole. Corporations also tend to have mixed groups of individuals, some of whom are clearly innocent. The innocent parties constitute the most central challenge to the prospect of corporate capital punishment. Lacking a theory of which firms ought to survive, it is difficult to establish a definitive judgment on corporate capital punishment. Hopefully the account below will help to provide a more complete account of the determination of a firm's worthiness for survival.

Entity responsibility has been the best available option for some time, and is likely to continue to occupy this position until something is done to alter the regulatory fabric and to take more seriously the process through which corporations distribute profit. The next section suggests some ways in which these problems can be addressed.

Towards Reclamation Governance

Upon examination, latency in the realization of responsibilities causes many problems of organizational governance. Classically, managers are hoping that fraud and other improprieties won't be found out on their watch, lest they personally suffer the embarrassment and costs. What is worse, many financial crimes and organizational misdeeds are intentionally buried in the organizational hierarchy in order to avoid liability among senior executives and to protect stock options and other performance-based compensation. This willful ignorance places resources in the hands of unscrupulous

individuals who are not in the control of the investors or the managers of the firm, a doubly problematic scenario. If we want firms to internalize the costs of their misdeeds, we must force them to bear these costs as if they had been imposed at the time of the misdeed, not years or decades later. The internalization of costs also improves the social and environmental incentives for organizational survival and failure. A system that can force agents to internalize the long-term costs of their actions has the potential to rationalize the decision to fail.

But how should we organize an economy in order to facilitate the reclamation of resources from those who have profited unjustly? The ideal solution should be imposed without adding undue regulatory complexity to the ownership and management of firms²². Though efficiency claims have received significant attention in this analysis, little has been said regarding the cost of tracking down investors and employees and forcing them to pay, sometimes in paltry sums. It is certainly much easier to write a check from a corporate treasury than it is to locate a disaggregated mass of investors, many of whom own shares through other entities, sometimes several entities deep. Here I will briefly outline two options, the second being a relatively radical shift from the dominant governance paradigm and structure of currency.

Beneficiary tracking. Some basic reporting already takes place with the SEC regarding the purchase of stock, especially when an ownership stake is sufficiently large. Were profit reclamation identified as a desirable regulatory alternative to firm-level fines,

²² Not so long ago, investment occurred in relatively simple social structures, and before that primitive societies existed where property rights and responsibilities were known for nearly every object within the spatial and social domain of a human group. Though most commentators note the complexity of modern property relations and laws, it is also interesting to note that this complexity is often simpler than the order that preceded it (Scott 1999).

the first step would be to record the identities and amounts of all profits distributed to individuals or entities from each firm, and the profit gained through sale of shares. The structure necessary to track this activity would not be trivial, but it is not that much greater than the structure necessary to track securities trade, administer shareholder votes, pay dividends, track employee compensation, and monitor the system of taxation. Given the identities and amounts of individual liabilities, a bill could be sent to every investor and employee for their debt in the larger remedy in proportion to their benefit from the firm's profit during the relevant period. This would satisfy a case like Siemens by forcing the right group of employees and shareholders to repay a portion of what they received from the firm.

The beneficiary tracking approach has three limitations. First, the system becomes less stable as latency increases. If a corporate impropriety lay dormant for twenty years, many who had benefited would be dead by the time their obligations were determined. Their debts would have to be passed to their estates through an increasingly complicated process of recollection. And worse, if a beneficiary were bankrupted before the revelation of impropriety, no resources would remain to pay restitution. The beneficiary tracking system is not capable of operating in the long run, but this is precisely what theory required to ensure substantive entitlements to profit. The second limitation is the organizational scope of the system: the approach ignores important extra-organizational features of corporate responsibility. If a firm's subcontractor enslaved its workers, the beneficiary model would protect the purchaser from any non-contractual obligations to the enslaved workers. So, if one wished to maximize profits and minimize risks, one

could house riskier business activities within separate organizations, an established practice in many industries and a major problem for the concept of limited liability (Hansmann and Kraakman 1991:1896). Because organizational boundaries hinder the recognition of externalities within the firm, the process is insufficient to fully establish entitlement to profit. And third, the beneficiary system does little to leverage reputation effects that might motivate caretaking among economic actors. In traditional societies, one who steals property from a neighbor incurs the cost twice, first through the reclamation of the property, and second through the altered conduct of the community that now views him as a thief. This secondary mechanism is fundamental to the genesis and maintenance of the property norm against theft. However, in the beneficiary system the burden of having benefited from impropriety is basically anonymous; it does not call the beneficiary into question in any larger sense. For all of these reasons, the beneficiary tracking regime is insufficient to protect a system of property rights to profit. Under this system, profit remains morally indeterminate.

ETHOS\$ economy. If our goal is to make a system in which wealth by entitlement is distinguishable from wealth by theft, it will take more than a system of tracked beneficiaries to meet the objective. Instead, the paths of all currency must be tracked. Imagine an economy in which each person is responsible for the places from which her money comes. In keeping with this responsibility, there is a real risk that money can be reclaimed if its title was not clear when it was acquired. Rather than structuring the regulatory function of the economy through a series of managerial hierarchies, each person would be made responsible for ethics upstream. Responsible investors and fair

trade consumers already view themselves in such a role: they use their economic decisions to address non-economic considerations within the economy and thereby take responsibility for upstream conduct.

To fix the idea, imagine an economy of “ETHO\$,” indivisible and traceable units of virtual currency. The tracking system records the currency’s pedigree through every transaction in the economy. In the ETHO\$ economy, stolen currency is rarely worthwhile. How could one steal a currency that is easily reclaimed by a victim? As the owner of a stolen bicycle reclaims it from a thief, so can a person reclaim an ETHO\$ that was unjustly taken.

Many economic crimes look like theft in the ETHO\$ economy, and the system has the capacity to regulate most of them. I have already claimed that Siemens stole wealth from purchasing governments through corruption. A similar argument of comparative entitlements might lead to the view that insider traders have weaker entitlements than the parties to whom they sold their overvalued shares, that drug dealers have weaker entitlements than addicts, and that those who profit from the mistreatment of employees have, in a sense, stolen from them. In the ETHO\$ economy, the question arises at every stage in the transactional chain: does the payer have the strongest entitlement to his or her wealth or has it been stolen from others? As the entitlements grow weaker, the likelihood of reclamation increases and the currency’s value depreciates.

Of course, it is often difficult to know whether the sources of wealth are legitimate. It would make no sense for the butcher, the baker, and the grocer to scrutinize

the transactions of each of their customers to determine the worth of their currency.

Instead, an insurance scheme could guarantee the value of each unit, and the company would take an interest in the activities of the individuals that the company serves.

The valuation of ETHO\$ follows an interesting logic. A virgin ETHO\$, received directly from the government, maintains its full value. But it depreciates slightly with every transaction as the risk of reclamation increases²³. Theoretically, an ETHO\$ received as a justified entitlement would maintain its full value, while ETHO\$ from known fraudsters would depreciate drastically because these would be much more likely to be reclaimed than income from responsible business people. Insurance could be provided, in such a system, to guarantee the full value of a given ETHO\$, and it would come with monitoring that sought to justify the sources of income claimed by the individual, and to make sure that these accord with appropriate business practice.

For those who think that the original position (Rawls 1999) is the right frame for considerations of business responsibility, I suggest that an economy of ETHO\$ offers a much more helpful groundwork for thinking about the nature and flow of economic responsibility. The virtuous person's ETHO\$ are worth their full value because she

²³ This view of supply chain responsibility is not amenable to the holder in due course (HDC) doctrine as imposed by the uniform commercial code (§3-302). HDC insulates the final purchaser of a debt obligation from any fraud, bad faith, or non-performance that occurred between the parties of a transaction in an attempt to grant the fungibility of currency to negotiable instruments. Insofar as my argument works against every dollar being treated the same, irrespective of its origins, I would make a similar claim regarding a promissory notes and other negotiable instruments. As a matter of statutory law, the value of such instruments is not determined by the conduct through which they originated. However, as a matter of justice and a moral theory of property, such an arrangement is no more defensible than a system that acts as if all profits are responsibly produced as soon as they have been distributed.

embraces the real costs of her business activity and does not claim more revenue than she deserves. The swindler's ETHOS depreciate as soon as they reach his hands.

I have shown critically that the current system of governance sometimes allocates property to individuals who do not deserve to profit. A system of ETHOS places a moral taint on ill-begotten gains that provides motivation for individuals to concern themselves with the origins of their wealth. The inquiry demands a fluid system of responsibilities, a system in which a person could be assured that the wealth that she possesses is her own²⁴. The ETHOS economy provides this.

The system results immediately in a governance function between individuals. I become interested in the sources of the monies with which I am paid. Of course, it is not possible for me to monitor all people, so instead we rely on a system of private insurance that attests to the value of the currency being handed off. A responsible businessperson who always distributes property in a just order, meeting prior obligations before later ones, will have an inexpensive insurance premium. However, an unscrupulous person whose business transactions have a history of reclamation will experience a pronounced devaluation of his currency, and significantly increased monitoring. The same will hold

²⁴ I count myself as a property pluralist. Though I do not claim that all systems of property are equally good, I argue against the view that a modern understanding of property is the apex of an evolution that has finally achieved a desirable end. Philosophers should be wary of guessing at exactly where they stand within a larger trajectory, because everyone, apologists and critics alike, lacks perspective on the larger historical arc. It is clear that property relations in modern society lack substantive content that can be found in more "primitive" societies. Community-scale property relations allow for the tools, land, and possessions of individuals to be actively acknowledged by that person's peers. In a small community everyone knows who owns what. In such a community, is not worthwhile to steal a tool; the risks are too great. Property acknowledgement, and accountability, depends upon cohesive communities with fewer possessions and these characteristics are not common in developed economies. The argument developed here applies local property governance to the system of currency.

for organizations, which will be motivated to serve all stakeholder interests prior to distributing funds. There are three key changes inspired by the ETHOS\$ economy:

First, the ETHOS\$ economy is a reformulation of the activist consumer's perspective on corporate governance. It traces responsibility and liability through transactional chains rather than merely corporate hierarchies. This does not dispense with the hierarchies, but it does expand and reinforce the interest groups who place their trust in them.

Second, the ETHOS\$ economy provides an unprecedented opportunity for performance measurement within the firm. Individual employees will wish to ensure that the revenues that they receive are actually connected with their own work products, because these work products are within the sphere of their control and thus governable by them. This induces a connection between revenues and activities that is otherwise quite unusual in a complex organization, and as Meyer (2002) notes when he suggests that such a connection be forged, it is difficult for organizations to inspire and maintain the practice. The economy might inspire some conflict over how revenues from different sources are distributed, and this conflict would relate to the larger normative questions of what revenue sources are being properly cared for, a question that employees have been known to leave to senior managers. But imagining that every employee had to wonder about the long-term value of the payments that she received, such an inquiry would focus an employee on the question of where the money originated, and whether the other obligations were met before the employee had been paid, questions that most employees are unlikely to ever ask under the present regime.

And third, the ETHOS\$ economy provides an alternative, network approach to organizational persistence, a benefit that I will discuss in detail below. My objective in this project has been to envision a system in which individuals have long-term motivations, in which governance motivations are distributed among those who are most likely to have information that would help them to govern, and in which the organizations that fail are the ones that ought to fail. The ETHOS\$ economy does this, and it provides an alternative specification for thinking about ethics. Many business decisions can be conceived through the following thought experiment: If I make money this way, is there anyone who ought to have a right to take a portion of the money back? In other words, if I make money in this way, will it be mine? I take this to be the spirit of justice that uniquely arises from a property-based conception of business ethics, but that encapsulates many other theories of the subject.

Earlier in this chapter, I presented three problems of performance measurement in empiricism and three problems in normative inquiry.

Practical problems

1. Performance observations are delayed; not immediately observable. In the ETHOS\$ economy, the delay is not a problem because costs continue to be associated with individual persons. If you take a bonus that is too large, it may be taken back.
2. Multiple individual performances overlap, and are not separable. In the ETHOS\$ economy individuals are interested in the revenues associated with their own activities because these revenues are known to be entitlement-generating.

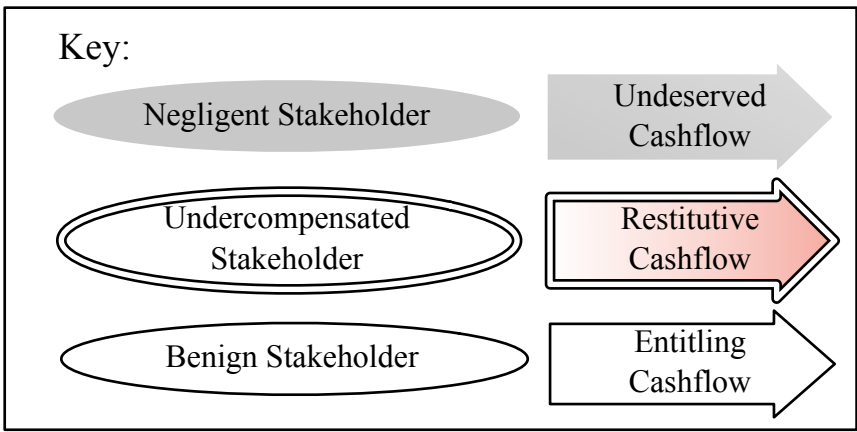
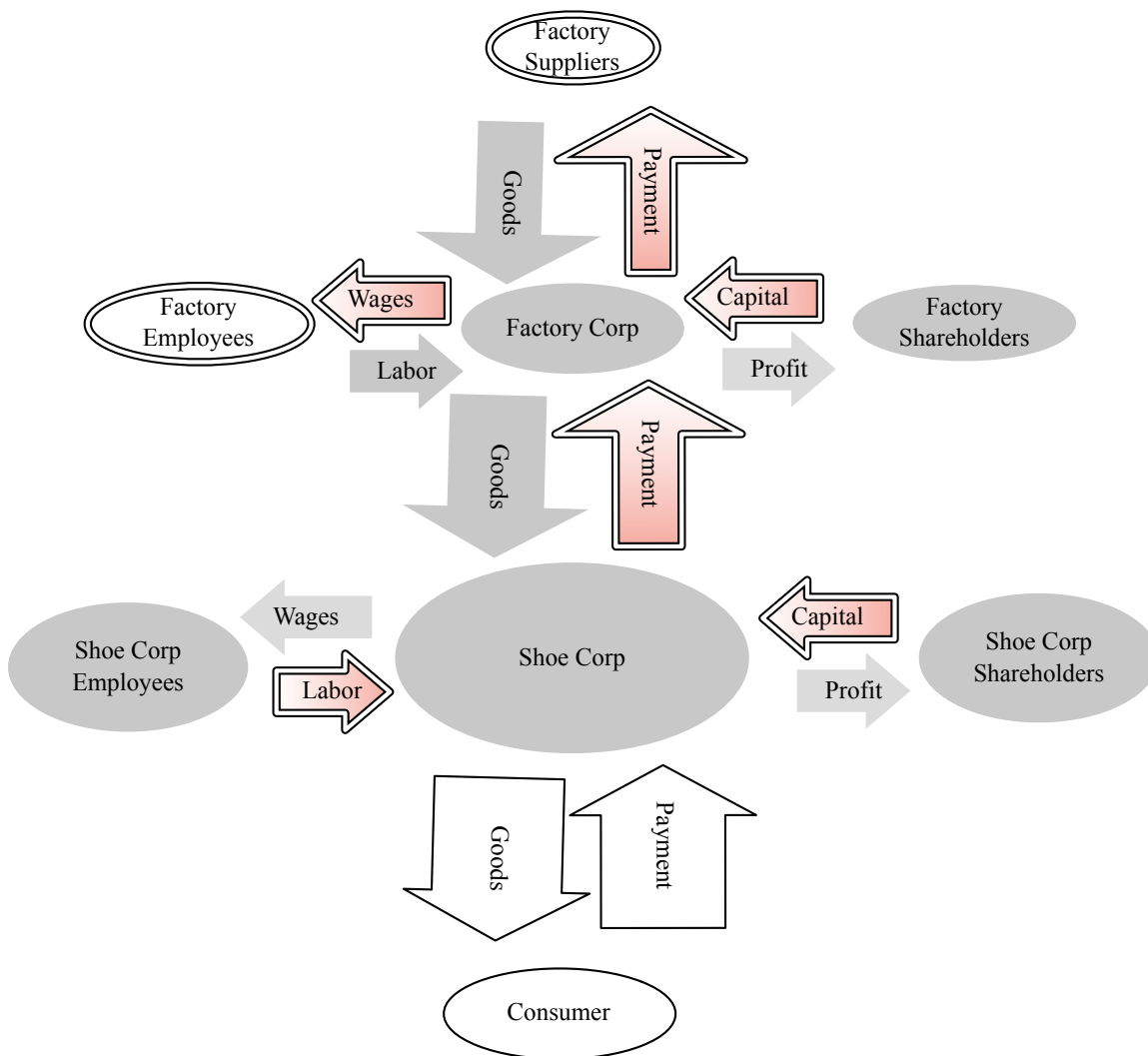
3. Specific measures are proxies, and therefore distorting and game-able. In the ETHO\$ economy, employees have to take a more holistic view because reclamation may risk their income later.

Normative problems

1. What goal should businesses pursue? The ETHO\$ economy does not provide business with a goal. This arises from practice, but it provides business with boundaries around practice that will be useful in attaining the goal.
2. Social and environmental performance proxies are green washable. But ETHO\$ are not. In fact, deceptions and disappointments are likely to haunt irresponsible firms and their employees.
3. Capital markets and career structures promote short-termism that undermines the case for ethics. Most importantly, the ETHO\$ economy gives employees a long-term incentive to steward their organization and its conduct regardless of their career aspirations and connections to a given firm.

These advantages of the ETHO\$ economy are directly applicable to the problems of performance management outlined above. One way to understand the strategy to the normative problem of organizational failure in utilizing the ETHO\$ economy is as a general treatment for aligning ethical and economic incentives. Organizations that can survive such an alignment are much more worthy of survival than those that cannot. One of the special properties of the ETHO\$ approach is that it can do this within supply chains with complex causal roles. Consider a relatively simple supply chain of international scope involved in the production and distribution of athletic shoes:

Figure 1: Shoe Corp Supply Chain Responsibilities



The diagram depicts a supply chain in which sweatshop conditions resulted in undercompensation for the employees of a supplier and the employees of a supplier's supplier. Suppose that a shoe manufacturer, Factory Corp, has been under-compensating, abusing, and defrauding its suppliers and employees. And that by virtue of Factory Corp's actions, Shoe Corp, has been distributing unjustified profits to shareholders and employees. The logic here is that Shoe Corp ought to have paid more for the shoes that Factory Corp supplied and that Shoe Corp's profits are therefore exaggerated relative to those to which clear entitlements are available. According to the entitlement logic, Shoe Corp employees, Shoe Corp investors, and Factory Corp shareholders all owe restitutive duties to the suppliers and employees whose undercompensated efforts resulted in overstated profits.

In the ETHO\$ economy, the duties of restitution would first restore the ETHO\$ to their rightful owners. Supposing that a Shoe Corp shareholder had taken an ETHO\$ from Shoe Corp profits and spent it at a restaurant, the ETHO\$ would be taken back from the restaurant. The restaurant would be repaid by a combination of Shoe Corp's insurance, the investor's insurance, and the investor's personal wealth. The insurance premiums would have been established during the period when the transaction originally took place, and these would be sunk costs for the investor and for the firm, so the system forces the firm and the shareholder to fully internalize the externality of irresponsible business practices. Were Shoe Corp a responsible company that cared about ethics throughout its supply chain, its insurance rate would be quite reasonable and every ETHO\$ of profit it distributed would be worth its stated value. However, once the impropriety has been

discovered, all of the misdistributed ETHO\$ are taken back and returned to those who are entitled to them, and the obligations are pushed upstream to the most immediate available person who benefited from the transaction.

The example illustrates the key reason why one might prefer the system of ETHO\$ over the system of beneficiary tracking. In this example, the beneficiary tracking system would not identify the responsibilities of Shoe Corp's shareholders regarding Factory Corp's employees because they occupy separate legal entities. Many shareholders and consumers view apparel manufacturers as responsible for the workplace conditions in the factories that supply them, a view that is consistent with the entitlement theory developed above. But they have yet to establish a system of governance that takes their view of responsibility seriously. The ETHO\$ economy provides such a system.

If an organization has unfulfilled duties in the ETHO\$ economy those duties are to be fulfilled through profit before any other party bears the costs. Profit is a residual; it comes last. The flow of currency from consumers into Shoe Corp should create equitable distributions throughout the supply chain before profits can be distributed. Most importantly, if these flows have not been routed as they should, they are subject to reclamation from wherever they have gone. This means that Shoe Corp employees, shareholders, subcontractors, and sponsored athletes all have reason to concern themselves with responsibility within the Shoe Corp supply chain, because all are recipients of funds that may be reclaimed if restitution is required upstream.

When the Tap Runs Dry: Entitlement and Failure

When Factory Corp's employees sue for restitution, their lawsuit pulls profit from investors and employees upstream. It does so because Shoe Corp shareholders and employees were not entitled to a portion of the profit distributed to them. This is the case whether the ETHOS have passed through one person's hands or many. Supposing that the ETHOS are insured at every step in the chain, then it is finally the former shareholders and employees of Shoe Corp who will bear the costs for past transgressions. The current shareholders and employees of Shoe Corp are burdened with two costs. First, they will incur the cost of fairly compensating the supply chain going forward, which may reduce the firm's profitability. And second, they incur the cost of increased doubt about the responsibility of their business practices, a cost imposed directly through the insurance premium for Shoe Corp profits.

Once externalities are incurred as costs and once the consequences of leading investors and insurers to doubt the strength of the entitlements that Shoe Corp is able to provide, the firm is finally stripped to its essential core and its viability is for the first time calculable. This is the property basis for organizational survival. Each organization is duty-bound to its stakeholders and the stakeholders in the wider network. The viability of Shoe Corp depends upon its ability to redistribute ETHOS upstream to cover duties of restitution while continuing to provide surplus ETHOS to downstream shareholders. If there are still positive cash flows after restitution has been paid, then the business can be said to generate a social surplus. Otherwise, it should not exist.

The ETHOS\$ system provides inter-temporal motivations for organizational failure. Unlike the utilitarian justification for failure, which required that the net social benefit of all acts be calculated, the system of reclamation permits the direct and marginal estimation of these effects without having to aggregate immeasurable costs. The system suggests that actors will lose interest in enterprises that are not socially beneficial and be drawn to other activities where internalized costs do not undermine organizational profitability, achieving the economist's ideal. The proposition for a property-based view of organizational failure is as follows:

Insofar as an organization is able to generate morally substantive entitlements to profit, that organization should survive.

There is also a positive claim to be made regarding firms that lose money, but behave admirably in their conduct:

Insofar as a firm cannot generate profit, but generates excessive entitlements despite economic losses, that firm is worth preserving.

Together, these two propositions provide the basis for a property-based approach to organizational survival.

I have argued that the prevailing system of governance allows parties to benefit from injustices, and that this threatens the entitlements that the system generates for those who derive wealth from profit. In the dominant system, firms will sometimes unpredictably collapse under the weight of past transgressions. Unfortunately, misdeeds are allowed to accumulate and the total liability is eventually realized as a simultaneous shock. Enron provides a useful example. Enron's bookkeeping practices created misperceptions of financial performance. Then, all at once, the whistle was blown and the firm quickly collapsed under the weight of its own accounting restatements. The course

of Enron's destruction is typical of many scandals in which exaggerated financial performance justifies overcapitalization, allowing a firm to continue growing when it should be shrinking. The resulting crash is more destructive than is necessary.

An ETHO\$ system operates under different rules. Earnings would not be "restated;" ETHO\$ would be reclaimed. This means that the costs of Enron's deception would be spread among its employees and its shareholders, concentrating among those who had gained most from the firm amidst the deception. Enron's deception would serve no purpose under reclamation governance: why bother to understate debt and overstate profit when the overstatements would eventually be personally reclaimed? And even if the crimes follow their historical course of boom-and-bust, under reclamation governance the burden would be widely disbursed among current and former beneficiaries. This might increase the chances for the entity to survive because the costs are not merely borne by the corporate treasury. The scenario also alters the motives: if the managers at Enron ever wanted to have their money be trusted again, they would have reason to worry about their integrity from the start.

Most societies find an arbitrary system of ownership to be undesirable, and many have quite complicated and well-orchestrated understandings of ownership that are meant to achieve pluralistic social ends. The structure of corporate ownership through the firm is meant to be one such arrangement, but that system has a moral perversity that manifests itself recurrently in the modern economy. The perversity results in unjust enrichment of well-positioned individuals who benefit from harms without paying for

their costs. This is an injustice for the firm and for the property system that relies upon the firm. It also demonstrates the incongruence of economic and ethical motivations.

The system of ownership that allows each individual to pass the property that they own with only ephemeral duties of stewardship and liability has provided a rapid expansion of capital availability in the course of its utilization. But something has been lost to a social order that makes ownership morally empty, impersonal, anonymous, and secret. One thing that is lost is accountability. I have tried to outline some of the ways in which property is held accountable and made responsible, and some of the reasons why capital has not been similarly engaged.

The minute details are extremely important in understanding how the system works and should work. These details suggest an increased emphasis upon bottom-up approaches to the field of business ethics. There are limitations to the grand abstraction of ethics. One limitation is the specificity with which we can address interactions between individuals to define responsible business practice. Rawls does not make these interactions the subject of his theory of justice (Rawls 1999), but we should make them the subject of ours. Given the resources that businesses command, the role that they play in established and emerging economies, and the extent to which businesses define the lives of individual persons, by consequence alone business must be taken seriously as a subject of justice. Business ethics ought to be more than a footnote in a theory of justice because business practice is more than a footnote in the incidence of injustice.

To this end, businesses must be judged on their ability to create morally substantial entitlements to property and profit. This should be the goal even if no system

exists to internalize the externalities that third parties are forced to pay. The failure of the law to require a person to do the right thing does not justify doing something that is wrong. The perspective is most immediately grounded in Phillips' stakeholder fairness and Freeman's stakeholder theory, which specifies the importance of mutually beneficial business activity. These views are systematized through the property entitlement arguments developed above. But the argument is open to other issues such as those realized in rights-based and utilitarian approaches. Just as the norms of fairness and reciprocity spread into a firm's supplier network, so should the protections against violations of human rights and the concern for the generation of net-positive social value. Any of these factors can threaten an entitlement to profit, and so all must be addressed by a fully adequate scheme of business ethics that guarantees morally substantial claims to distributed profits.

CHAPTER SEVEN:
SHOULD BANKS AND PAPERS SURVIVE?

Introduction

The normative exercise of chapters five and six is unlike the empirical analysis that preceded it, and some might argue that these are separate projects that contribute nothing to one another. The argument may come from both sides, as ethicists wonder about the value of empirical observation and sociologists wonder about the value of normative considerations. The competing logics of normative and empirical research, and the possibility for successful integration has been subject to much debate within business ethics (Donaldson 1994; Jones and Wicks 1999; Trevino and Weaver 1994; Velasquez 1996; Werhane 1994). And the issue is of special importance here, as the reader justifiably asks two related questions. How does the empirical observation of the post-failure processes improve the normative analysis of failure? And, how does the normative analysis of failure improve the empirical analysis of post-failure processes?

In this final chapter I speak to the question of compatibility between normative and empirical research. First, I examine the larger narrative that I have pursued in this project. I consider this narrative as a method for knowing about ethics and for knowing about organizational processes and seek to describe the ways in which these two components of the research have contributed to each other, and how I have sought to partition them as distinct exercises. Second, I apply the normative analysis to the empirical settings of this dissertation, to newspapers and investment banks. In so doing, I

demonstrate the final stage of my normative method and the importance of its ongoing empirical application.

There is an important question of compatibility within the competing logics of normative business ethics and empirical sociology. To be sure, most sociological projects would do well to avoid moralizing, and this one is no exception. How empty would be the empirical claims if they were concocted from vapor to support a normative view? Ethics and empiricism can work at cross-purposes because each has the potential to corrupt the other. Sociology, which aims at describing objective and subjective social realities as they are experienced, is carried no further by asking “What ought we to see?” If anything, a researcher who is too focused on wishing for a given outcome may dismiss disconfirming evidence, and this would be a clear violation of an empirical researcher’s professional responsibility. For example, if a sociologist who believed strongly in the nuclear family were to find that children raised by divorced parents instead fared better than children from intact families, that sociologist would be duty-bound to report her results regardless of personal convictions that contrary results were more likely or more consistent with her cause. Research is not value neutral, but this does not mean that one should promote false statements to further political or moral ends.

Just as prescription can undermine a descriptive project, the corruption can run in the other direction as well. For example, it is not enough to say that “People think inequality is acceptable.” ethics requires that we demonstrate that people are right to think as they do, and further, that we understand what it means to be “right.” One need look no further than slavery and gender inequality to find enduring cases of broad social

agreement on unjustifiable views. As Hume observed long ago (1978), the normative project is not effectively undertaken with empirical evidence alone. Donaldson pursues this claim further:

“The temptation to integrate the normative and the empirical at the level of fundamental theory must be firmly resisted. We cannot both understand empirical causes and evaluate normative behavior using the same set of integrated axioms” (1994: 167).

This argument has a face validity that appeals to the most basic field-based expertise of both social science and humanistic disciplines. There is a danger that by focusing on what “is” we might fail to apprehend what “ought to be.”

Clearly, there is a gulf dividing the methodologies and logics of social science and humanistic reasoning (1959). But the expanse between the approaches is greatly exaggerated. First, many settings provide examples where the facts and the words about them are unambiguous indications of what “ought” to be done. Searle shows the absurdity of the is/ought distinction in ordinary life by imagining himself as a baseball player who has just been tagged out and called out by an umpire:

“I however, being a positivist, hold my ground.... I point out to [the umpire] that you can't derive an “ought” from an “is.” No set of descriptive statements describing matters of fact, I say, will entail any evaluative statements to the effect that I should or ought to leave the field.... I think everyone feels my claims here to be preposterous... By undertaking to play baseball I have committed myself to the observation of certain constitutive rules” (1969: 185).

The philosopher-player who seeks compelling normative reasons to play by the rules has apparently misapprehended the nature of the game. There is, in fact, no reason why the player cannot simultaneously observe the validity of the umpire's call as a normatively binding statement and also observe the empirical presence of the norms of rule-following and role-based authority within the game setting.

Second, there is a critical question about where emergent norms actually originate, and it is fair to say that social progress is rarely won through philosophy. Returning to slavery and gender inequality, for instance, it was clearly changes in practice that led to changes in thinking rather than the reverse. Women and minorities gained equality slowly through struggle, not through the rational considerations of philosophers. Most philosophers have lagged considerably behind the concerned citizens and subjugated minorities who brought these issues to the fore. Reason has a role in articulating and reconsidering ethical perspectives, but the importance of intuition, compassion, and observation is equal if not greater.

And third, social science is not as objective as its adherents may claim. Some fields embrace their normative orientations. Economists, for instance, use efficiency, rationality, and optimality as evaluative standards. Many empirical projects are almost an afterthought in economic analysis, a check to see if practice follows the course that theory suggests it should. When it does not, the economist is more likely to stand in judgment of the practice than the theory. Sociology and psychology bury their evaluative concepts within the subjects of study, and these are never arbitrary. Positive psychologists study subjective well-being because they believe that positive human experience is important, and while this belief is neither confirmed nor disconfirmed within their analysis, many of the associations that they seek are meant to demonstrate the importance of “happiness” in human health and other subjectively important ends. Similarly, sociologists study network position and interpersonal connection because they believe that relationships are important. They seek to demonstrate the ways that

relationships foster other valued ends. Their positivism requires an ethos of how facts are known, but it does not require them to discard their own intuitions and sensibilities about what is ultimately of value.

Normative and empirical analyses are (and ought to be) interdependent. Ethics is rife with empirical suppositions, and ethicists would do well to understand how people who face a given dilemma interpret that dilemma, how they bracket what matters in a given situation, and how they understand the rules regarding their conduct. This is useful information even if the ethicist eventually concludes that the standard interpretation of a situation is morally perverse and wrong. Just as empiricism enriches ethics, so too can ethics enrich empiricism. Ethics focuses on some extremely compelling issues, and these issues present worthy subjects for empirical inquiry. Philosophy also provides a useful language for distinguishing between moral motivations. In the next section I document how these disciplines have informed each other within this dissertation.

Failure: Empirical and Normative Perspectives

This dissertation provides one example of how normative and empirical undertakings can be pursued within the same project, if not the same chapter. The dissertation begins with an introduction to a set of empirical considerations, and then explores these empirical questions through interviews with people whose experience bears directly on the topic. The empirical component consists of four chapters: an introductory chapter on theory, a chapter on methods, and two chapters to collect and categorize empirical observations. The empirical analysis makes no attempt to justify normative claims. Instead, it focuses on “ways of knowing” about human behavior, the

existence of social norms, and the dynamics of social and economic life in the wake of organizational failure. I find in the third and fourth chapters that many organizational norms and routines survive failure, and described some of the processes through which this occurs. Even clearly normative concepts like the justice-oriented norms of chapter three are treated as social objects and subjected to a sociological analysis that aims to understand rather than to judge. I distinguish the justice orientation of a norm based upon the way that individuals describe it and the sacrifices that they are willing to make to maintain it rather than by my own beliefs about justice. The title “justice-oriented” might well be replaced with “serious,” or “deeply guiding,” because the overlap between these norms and the philosophical accounts of justice is merely incidental. However, it is not so surprising that the intuitions of journalists and investment bankers about matters of personal feeling are directly connected with what philosophers would also believe to be important. This is, of course, because both philosophers and professionals are guided by some of the same basic value commitments, but the empirical project offers no proof of this because philosophers are not included in the sample.

The normative analysis consists of two additional chapters. These chapters consider a more general topic and do not focus on the specific individuals or the study context. Until this point, the presentation has been largely split from the empirical analysis that preceded it. Instead, the normative Chapters Five and Six consider the more general question of which firms should survive. Participants in my research have wrestled with this question in the post-failure career crisis, but business ethics has little to say of their struggle. I hope that those who participated in the empirical portion of this study

could find something of interest in the normative analysis, but it does not originate in the way that they frame their choices, nor is it extrapolated from their experiences.

In two normative chapters I discuss four distinctive perspectives on organizational failure, perspectives based upon utility, rights, fairness, and property. The normative claims are justified based on the strength of the argument for them. These arguments mainly operate by means of comparison between theories. For example, if business activity ought to aim at mutual advantage for all collaborators then utilitarianism accepts tradeoffs that are inconsistent with the stakeholder principle of fairness, a conclusion that follows from the nature of the utilitarian logic applied at the firm level. This demonstrates that utilitarianism reaches a result that is inconsistent with the standard, cooperative view of the corporation.

Normative analysis considers prescriptive claims for what one ought to do. Like empirical analysis, normative analysis depends upon foundational concepts, but the foundational concepts of ethics—the rights of a person, the importance of human wellbeing, the priority of human community, the intrinsic value of the natural environment, the priority of honoring one's commitments—are not demonstrable using empirical tools. While proxies for these values can be measured, and their correlates tested, their worth is not an empirical matter.

There are numerous strategies for answering the basic questions of ethics: why be moral? What is ultimately of value? And I have said very little about these basic issues in either section of the dissertation. The contribution that I have made to normative theory is one of application. If I have developed something new in my account of the ETHOS

economy, that line of inquiry will require much more development before it can be established on its own grounds. So far, the justification for the ETHOS economy is based upon gaps in other lines of inquiry and approaches to accountability. The basic precepts are only briefly articulated. The only additional clarification that may benefit the interpretation of the normative argument is my stated loyalty to value pluralism. Value pluralists believe that there are multiple systems of value that compete for attention in any normative analysis. Business ethics fosters value pluralism because the diversity of organizations and cultural contexts in which businesses operate provide numerous reasons for us to respect the agreements within firms and the local regulatory systems in which firms operate (Dunfee and Donaldson 1999). Given the opportunity to exit, employment agreements most often arise from consent and therefore create a diversity of binding organizational norms. This diversity is greater than what one would expect to find in a universalistic context, like the state. It is the voluntary nature of economic associations that gives them their special character as forms of community into which members self-select (Hartman 1996).

Over the course of three chapters including this one, a normative analysis of failure follows three steps. First, it uses established normative theories within business ethics to consider an unexplored topic: the ethics of failure. Second, it addresses the inadequacies of these theories by extending a property-based approach to the subject of organizational failure. The property approach unites important values found within other theories of business ethics through integration rather than asserting the relative priority of one value over another. The third and final step returns to the empirical focus of the study

and applies the normative argument within it, using the empirical observation to sharpen the normative claims. Empirical observations cannot prove normative theory. They cannot determine what ought to be valued. But they can demonstrate a theory's vitality and relevance within the normative conflicts of the applied research setting.

The section below considers the question of whether newspapers and investment banks ought to survive. It does so with reference to the critical reflections on the positive and negative externalities of these industries. A positive test of the normative framework would find the claims regarding these industries to be categorically consistent with the proposed framework. A negative test would reveal important normative issues that are not compatible within the proposed framework, each of which might suggest revisions to the approach. John Rawls proposed something similar in his work. He argued that by moving between normative theory and intuitions in practice, a philosopher can eventually reach a "reflective equilibrium," a point at which a theory stabilizes into a form that is consistent with intuitions and intuitions have stabilized to be consistent with the theory (Rawls 1999). The full process is not realized here. It would require that the theory be applied directly to practice and that the consequences of that application be observed and addressed by altering the theory, a cycle that would continue until an equilibrium was reached. The application of a theory of organizational failure would require experience that does not exist to determine its practical implications. Instead, the application that we are able to consider is whether the reasons for firms to survive and for firms to fail are generally comprehensible within the terms of the proposed theory.

Newspapers and Banks: Two Questions of Survival

Suppose that we can agree that organizations ought to create morally substantial entitlements for their shareholders and employees, and otherwise they ought not exist. Where would this view lead us in the observational settings of newspapers and investment banks? This dissertation has documented some of the critical reflections of employees from both of these industries, and some glowing praise for organizations that have collapsed and disbanded. There is nothing objective about the perspective of former employees, but neither is there a good alternative perspective that provides a purely objective lens.

This chapter presents the public goods argument for the survival of newspaper journalism and the excessive risk argument for the failure of investment banks. I hope that these summary judgments are taken in the spirit of inquiry rather than conclusiveness. Each is intended as a means of elucidating the argument rather than deciding the outcome. In taking up these arguments, I shift my attention from a case-by-case analysis of firm failure to an industry analysis based upon a set of generalities. In practice, of course, the question would not be whether banks should fail, but whether a specific bank should fail under specific circumstances. I do discuss some of these issues with reference to Global Investment and the City National, two central organizations in my dissertation.

Since early 2008, both newspapers and investment banks failed for economic reasons. In newspapers, the economic collapse occurred due to persistent cash flow problems and an insurmountable debt burden. New advertising outlets, many of which

were online, diluted the value of newspaper advertising inventories. Meanwhile, websites like Craigslist.org and eBay.com crushed the local market for classified advertisements. At the same time, the content itself began to be distributed through numerous alternative outlets, many of which avoid the cost of collecting news and merely aggregate the news collected by others. Declining readership, reduced advertising revenue, and an inability to capture the local need for information has resulted in a rapid and drastic downturn in the economic performance of newspapers. In investment banks, significant exposure to home mortgage markets coupled with organizational interdependencies through derivatives contracts very nearly toppled the financial system.

In this setting, it is no wonder that the question of survival for these two industries has entered the public arena for debate. It is also no wonder that countless essays, analyses, and arguments have been written on all sides of the issue. I will not attempt to document all of the influential accounts involved in this debate. The next two sections document critical and supportive perspectives on newspapers and investment banks. I conclude by revisiting the initial theorizing of Chapter One and summarizing the contribution of the larger report.

Should Newspapers Survive?

In an age of bailouts, many newspapers are sinking, yet thus far new public subsidies have not been mobilized to support their rescue. The qualitative account of chapter three reveals three reasons for subsidizing the news: the socially beneficial product of a well-functioning news media, protecting a training ground for journalism, and the direct costs of unemployment. The account also reveals that not all papers are

equally deserving of subsidy. In particular, the City National stands out as a paper that has failed its employees and public, but continues to survive. In this section I will argue for the protection of the news media through public subsidy as suggested by media scholar C. Edwin Baker (2009). I note the limitations of preferences for and against organizations revealed through qualitative research, and argue for the protection of norms of professionalism among well-intentioned employees.

My defense does not concern the medium through which news is distributed: it focuses on the organization and structure that generates and curates the news. Whether people find their news online, on monitors in public spaces, on their cell phones, in print, or on their computers, there are certain basic components of a news organization, which I have identified as norms and routines of news production and which may be worth preserving regardless of the reader's choice of news medium. I focus here on the preservations of the essential aspects of news collection organizations rather than the technical apparatus of newspaper production.

The Costs of Collapse: Positive Externalities, Training, and Unemployment

Positive externalities. News media are an important force of accountability and public motivation for social, economic, and political stability. In economic terms, newspapers produce significant positive (and negative) externalities:

Media products often produce extraordinarily significant positive and negative externalities. People care whether their reputation is ruined or advanced, whether people they meet are boring or cultured, and whether they are murdered or aided by the person they pass on the street – and these are among the phenomena whose occurrence can be significantly influenced by other people's media consumption. Likewise, many people value a well-functioning democracy. They are affected by whether the country goes to war, establishes parks, or provides for retirement and medical care – and hence can be greatly benefited by other people's consumption

of quality media or harmed by others' ignorance or apathy produced by inadequate consumption or consumption of misleading, distortive, and demobilizing media. Furthermore, the political or corporate corruption that the threat of media exposure deters is a benefit that the press cannot effectively capture – there is no story – to sell to consumers. (Baker 2002: 10-11)

Baker outlines the key rationale for many public interventions meant to protect media producers. From discounted postage to property rights, American public policy includes a variety of provisions that attempt to ensure the survival of the media.

What would they preserve? The foremost concern is for the preservation of the news product, the words and images that portray an accurate representation of events to inform a wider public, and while the specific form of these words and images remains contentious, their necessity is not. An uninformed public cannot make good decisions about how to vote, what to buy, and how to understand changes in their society and culture. A professional media is one of the pillars of an informed society, and its nature as a public good explains one of the key reasons for subsidy. Newspapers are costly crusaders, and without subsidy they may not have the resources to keep doing the work that they do.

Can the media be trusted with the responsibility of informing the public? Not entirely. Readers must filter information in order to determine its trustworthiness, but it would be wrong to place the entire burden on the reader. Fortunately, in my interviews there was not a single mention of a “buyer beware” ethic among journalists. Newspaper journalists espouse a deep sense of professional responsibility for the news that they report, and this sense of responsibility is at the heart of what we should wish to preserve.

Training. How does one preserve responsibility? It isn't the sort of thing that can be bought and sold, or even paid for. Most readers are entirely unaware of the process of

contestation involved in producing the report that they read. In fact, many journalists are even sheltered from the economic pressures that mire the paper as a whole, though this separation has been destroyed in many papers, and this is a major loss. But the greater loss is the destruction of the news organization and the news collection and curation relationships that evolve within these firms. The transition moves the editor from a role as mentor, collaborator, and critic to one of purchaser.

To get a sense of how the changing organization of news threatens the learning that happens in papers, consider this interview excerpt from Tim, an experienced photojournalist who took a position as a photo editor at the Afternoon Dispatch. Note that Tim learned from the organization beneath him because the organization had a tradition of story telling with pictures. Though this quote concerns the relation between a photo editor and a photojournalist, an equivalent case could be made for assigning editors and writers. Note also that this was a second interview with Tim as a follow-up on his trajectory, so the questions are less exploratory than in the first interview.

Interviewer: You mentioned that all of your experience, including being an editor, has improved your photojournalism. This is a leading question: Did being an editor focus you more on the story? At what point did you focus on getting the story into the picture?

Tim: Well, in keeping with the contrast between the Afternoon Dispatch and the Dispatch Journal, there was never at the Dispatch Journal, an expectation for photographers to be anything other than photographers. The term “photojournalist” wasn't used, and there was no expectation that you were going to do anything other than provide decoration for the presentation of the story. It wasn't about message, about narrative, and that sort of thing. And when I was a photo editor at the Afternoon Dispatch I became more in tune to that. It wasn't just my own realization; I didn't invent that. It was a disposition that was in play at the Afternoon Dispatch for a long time. So, it was something that I learned at the Dispatch, or at least learned to put into play and make use of. It was fun. It made the photography richer and, we felt, more useful to the readers. It felt like a more rewarding journalistic experience. I might have strayed from your question.

Interviewer: Not at all, that seems like the experience that you had as an editor. Do you think that your photography would have improved in the same way had you taken a job there as a staff photographer?

Tim: I actually had that opportunity. It was put in front of me that I could choose [laughs]. At the time that they hired me they needed both, and I could be whichever I wanted to be, and I chose the editor job. ... For me, having changed hats like that, and having that experience of coming to the photography from a different position and looking at it more critically, collaborating with the photographers, had the effect for me of teaching me about the story telling aspect of photography in ways that just by shooting, I don't think that I would have picked up on.

Interviewer: How does that happen? Is it in having to talk to someone else about why you choose a picture?

Tim: Yes. In fact, there is one conversation in particular that will always stand out with me, with Josh actually. Ironically, it didn't have to do with Dispatch pictures, but with a woman who had sent some pictures asking for critique about some stories she was working on. I had been at a photojournalism conference not long before that, and she'd missed the opportunity to talk to me and wanted to get some feedback. So she sent me this work, and we printed it out and spread it all out, and were talking about that very thing. And we found ourselves trying to articulate different qualities in pictures that make them stand out. That make them why you're attracted to this picture over that picture. The articulation became this very important thing: the words that we were choosing to use to describe the picture and the strengths of the picture became what I came to describe as my editing words list. You know, it is a list of about twenty or thirty words. They include light, moment, color, expression, things that any given photo is going to have some combination of these things as features of that photo, and when you are critically trying to decide what makes this picture stronger you have a sense about that, that language of photojournalism is at work, but to actually force yourself to articulate what that quality is that is making you decide what is making this great picture became this list. It isn't as if we then used that list to sit there and distill the quality of photos, but it was an important exercise in learning the language of photography, and I've always felt that if people who didn't come from visuals, who we fondly refer to as "word people," came to have some of the same language, this articulation tool, at their disposal, maybe they could be able to look at pictures with a little more sophistication.

Interviewer: And the million-dollar question that follows from that is, what happens if photo editors are no longer interacting with photographers, if they're just deciding what to use. How does that learning happen?

Tim: I think it suffers. It definitely suffers. I work with the local university photographers and their daily newspaper staff, and those guys are hungry for that feedback and that interaction, and others who are just out there on some level, trying to produce, trying to freelance, trying to keep active, to keep in the game. Especially younger people, I am finding are always seeking that out. But, as a freelancer... actually as a former photo editor, I know that there isn't a lot of feedback that goes on when you are sending in photos remotely. Usually what you get is, "Don't you have any of this? Could you send some more photos?" It isn't critical feedback that helps, you see, helps you shoot, helps you learn.

The news crisis is already under way, but some of its most severe effects may not materialize for years because the industry currently relies upon an inventory of unemployed but well-trained journalists. Once these journalists leave the industry, papers may find a much weaker labor pool that does not share the normative and aesthetic culture of current employees and freelancers. News production centered on freelancers does not offer the feedback and support necessary to inculcate the norms of journalistic practice.

Unemployment. The social and economic function of news affirms the reason why the industry matters to outsiders. The reduction of learning opportunities within journalism may be a significant factor in its eventual decline. But the most immediate cost of failing newspapers is borne directly by laid off employees. The circumstances of these individuals are perhaps the most severe indictment of their industry. Journalists tend not to be compensated well enough to self-insure against job loss, and the use of strategic layoffs among senior staff to reduce payroll cost results in an extremely challenging economic circumstance for individuals who are exposed to age discrimination in the job market. Journalists are far from helpless in this struggle, and the acceptance of these decisions by unions implicates an even wider part of the news organizations that allow senior journalists to be dismissed.

Given the possibility of post-failure entrepreneurship and the social costs of unemployment, it seems that one public policy innovation suggested by this context is the subsidization of entrepreneurial projects among victims of mass layoffs. If former employees of news organizations did not have to personally cover all of the risk of their entrepreneurial endeavors, it seems likely that more would participate in these projects and work to find alternative organizational forms. And better yet, their former employer would have to deal with the very real likelihood that layoffs would yield new competitors, a fact that is often forgotten by desperate managers.

Should All Papers Survive?

The City National stands out as one of the most severe cases of the collapse of journalism. The transition occurred through the intervention of the business side of the paper into the news organization, and though the paper still employs some very good journalists, it has been a difficult place to work for some time.

The City National, like many papers, has been desperately chasing readers and aiming their content at specific audiences. Unfortunately, this marketing approach is disconnected with the social value justification of the trade, and may undermine the end that it seeks²⁵. It certainly creates serious tensions within the newsroom.

The City National distinguishes itself by the abrupt transition it made from being a paper where people were proud to work into a paper where, as one former reporter

²⁵ That some things are best pursued indirectly is an important observation in philosophy and the thesis of the pleasure paradox. Kierkegaard wrote in *Either/Or*, "Most men pursue pleasure with such breathless haste that they hurry past it." The same may be said of newspapers that may be discarding the elements that make their news worth reading in the search for readers.

remarked after an interview, “It was an honor to be fired by a paper like that.” As a rule, papers are weakened by financial stress, but journalists describe being motivated by the desperate times. At the City National however, this is not observed:

Patrick (laid off by the City National, continues to work as a writer on technology): Journalism is not an industry that thrives under cost cutting and pricing pressure. It doesn't get better for it. Whereas efficiency clearly makes some industries better, efficiencies are not making journalism as we know it better.

Perverse incentives in the communications market lead firms to spend more on news presentation than they do news collection, to treat political realities as political games, and to fabricate controversy out of agreement (Fallows 1996). None of this is responsible to readers or even good for the bottom line of an information organization in the long run, but the only way to protect a profit margin amidst decreasing revenue is to cut costs drastically, and with costs go news creation resources that justify the entire system. One participant describes this in personal terms:

I miss the banter of the newsroom, the busyness and a little of the cynicism. I miss the “we're all in it together “, but I don't miss my particular newspaper because the paper I worked for is no longer the paper it was. I wish it well, I want it to survive and to figure it out. I wish I could have been a part of that solution, but I spent [many] years learning very, very specific things about [certain news] and it's not valued at the City National as it once was. My greatest capability and knowledge base is not there. What they needed me for, they don't need me for. That is the reality.

As the news fails, some newspaper journalists and managers fail each other. They fail to protect each other and to value things that ought to be valued. They fail to ensure that their own employment is not coming at the expense of someone else's employment.

Amidst failure, some of the positive and protective social norms of collaborative and supportive industries collapse under the strain of personal risk. As such, though the City

National has failed many of its employees, this is not a sufficient reason to say that the paper ought not survive.

Saving Journalism

As an empirical matter, this dissertation has made a strong case for subsidizing work rather than organizations. Though work occurs within organizations, there are many ways in which subsidies can be diverted to third parties whose activities are not connected with the efforts that a policy means to preserve. In describing the firm as a system that generates legitimate entitlements to profit, we must acknowledge the diverse interests that bring people together within the firm. Insofar as the public wishes to join these interests, it should apply its will with some specificity, not just to the organization, but to some of the work products associated to the organization. Otherwise, public resources will be diverted whichever way the organization could wish, and this may not be at all good for the public. Meyer's (2002) argument for measuring revenues at the activity level, where goals are most powerfully motivational, might be extended to suggest that subsidies should be focused on specific activities as well.

In newspapers, we are concerned with news production and curation. We are not concerned with those who made bad bets on news markets in a gambit to take city papers into suburbs, nor are we much concerned with the capital investments in print production that these people made. At least, no more concerned than we might be for any other productive capacity that we should wish to encourage. But from the public subsidy perspective, it is the journalism that matters, and any subsidies should be focused on the

work activity of news production. Baker testified to this end before a congressional subcommittee:

If the government gave these media entities a tax credit for half of the journalists' salary... the public interest would be served. These tax credits would reverse the incentive for newspapers to lay off journalists, and in turn would increase the quality of newspaper journalism and cause circulation to rebound. For the roughly 48,000 journalists now employed by the nation's newspapers, who are paid on average slightly less than \$50,000 a year, this tax credit would cost about 1.25 billion dollars, a fraction of the amount in today's dollars per person that the country provided in the form of a postal subsidy a hundred years ago. This targeted subsidy would duplicate the financial commitment of the founders to the news media of their time (2009).

Many disappointments of American political life can be blamed on a beleaguered media establishment, and the market incentives can be blamed in turn. Targeted subsidies might correct these market incentives and provide for a more responsible media establishment.

In property theory terms, news organizations probably generate excess entitlements to profit, but the ETHOS economy has no special technique for identifying these entitlements. Unfortunately, the intellectual property mechanism has not (and may never) capture this aggregate product. Though I have said little about the intellectual property issues that undermine the revenue model of news organizations, these challenges make the context a difficult place to implement the ETHOS economy. Those who escape with value from news organizations have not stolen money: they have taken words, facts, and ideas into their vocabularies, onto their websites, newscasts, and blogs. The influential reuse of ideas that originate in papers is at once a triumph of the journalist's work product and a detractor from the revenue opportunities for the firm.

The destinations of ideas are difficult to trace, and so the aggregate value of the ideas is fundamentally uncertain. Whatever value is attributable to papers must be determined by other means. Note that this is precisely the sort of revelation provided by the interaction between normative theory and empirical practice. The fact that the normative theory is incomplete indicates that it is in need of further development. In particular, there is an open question of what duties a firm's beneficiaries owe the firm regardless of their contractual relationships. As the newspaper case demonstrates, identifying such relationships may be complex, but the question of responsibilities for third parties who benefit from positive externalities is as compelling as the question pursued in the preceding chapter, which examined the rights of third parties who are harmed by a firm's negative externalities. These are potentially fruitful avenues for future research.

Other normative theories also substantiate the claim that newspaper journalism should survive. From a utilitarian perspective, most newspapers provide enough social value to justify their survival and to make failure lamentable, but the utilitarian criterion is weak. It only required the paper to offer some positive social value to outweigh its social cost. There is more substance in the rights-based view. Though Donaldson's criteria offer little insight, Bowie's notion of meaningful work (1998) suggests a newspaper in which individual journalists are permitted some autonomy as workers. Add to this Phillips' argument for stakeholder fairness, and we can begin to imagine the news organization as journalists would choose for it to be, which, according to interviews, is focused on news that matters, telling stories well, individual initiative, and social

responsibility. This is the newspaper that journalists have been struggling to save, the newspaper that many of them have come to love and cherish. And I admit that I have accepted the spirit of their cause. Though the case for the City National is weaker than most, the positive social benefits of most newspapers exceed their capacity to generate revenue, and our society's health may be directly linked to the health of its news media.

Should Banks Fail?

The most striking contrast between newspaper journalists and investment bankers is the difference in the prevalence of justice norms. With very little prodding, reporters explain a complex set of duties that they recognize in light of the public service of their trade. Journalism is not a profession in the sense that it has no governing professional bodies and no means to restrict labor supply, but there is certainly a professional ethic in place among reporters. Unfortunately, as I describe in Chapter Four, I found very little evidence of justice norms in investment banks. There were two mentions of guarding against insider trading, both by people who had chosen to leave the industry. Several bankers mentioned compliance and oversight, and this research protocol was even reviewed by the compliance department at one firm before the banker agreed to participate, but the normative orientation that explains why all of those rules matter was almost non-existent. Whether these norms were displaced by extrinsic compensation as Chapter Four suggests, or undermined by a pattern of unenforced rules (Burg 2010), their absence is palpable. Without the guiding force of a global sense of duty, investment bankers have only the measure of money to determine which risks to take, and there is

much less attention to stewardship and systemic risk than is warranted by the nature of the business.

With enough faith in the market, a person may become convinced that justice norms are unnecessary. She may believe that the invisible hand will motivate appropriate behavior and that no other interventions are needed to protect the system as a whole. The promulgation of this view is partially the fault of business schools that have certainly fostered the mythology of self-regulating markets (Khurana 2007). However, the view seems to have become less common given the prevalence of strong evidence to the contrary. It now requires a rather callous disregard of events that are readily observable to every person within or outside of the financial services industry. Of the numerous financial scandals involving market failures, it seems quite clear that the market alone was unable to regulate behavior at Enron, WorldCom, and Bernard L. Madoff Investment Securities. Any coherent social and political perspective in the financial world has had to make room for these disappointments.

In Chapter Four (p. 152), George critiques the lack of organizational culture in banking. Before he was even hired by a bank, he was being counseled on switching firms to avoid being exploited, on loyalty to self before loyalty to firm. These norms are salient in compensation, mobility, career structure, and the collapse of organizational legacies. When Earl notes the selection process involved in explicitly recombining routines (p. 186) he also cites his manager's rejection of the old way of banking. He quotes his boss as saying, "Look, I reject the [prior employer] ideals. I think it shouldn't matter how you manage people. I think it shouldn't matter how long you've been in the company. What

should matter is how much you delivered this year.” Unfortunately for banking, most firms have left the long-term interests of the firm behind and accepted Earl’s manager’s view. They accept that recent performance is all that matters.

The 2008 crisis led to a critical reconsideration of this perspective. Many firms have begun to institute “clawbacks” that allow the firm to reclaim employee compensation if apparently profitable transactions prove to be unprofitable after the fact. The movement meets with obvious distaste from employees, but also surprising pushback from institutional investors on the buy-side. For instance, Hye-Won Choi, the head of corporate governance at TIAA-CREF is quoted in a Time news story arguing against clawbacks, “Rather than relying on clawbacks, companies should make sure they get their compensation decisions right in the first place” (Gandel 2010).

The debate reveals the industry’s ongoing inability to comprehend the epistemological limits of financial knowledge. I argue in Chapter Six that the actual performance of a transaction cannot be immediately known. As such, getting compensation decisions “right in the first place” misplaces faith in the established financial measurement and risk management systems, something that financial services employees are learning not to do (see p. 169). These epistemological limits make the rapid firm switching of financial service careers the riskiest possible configuration. Employees can take their money and run long before the actual performance of their strategies is known or knowable.

Note that journalists also switch teams regularly, moving through careers that are linked to numerous other people. However, their transitions often seek to affirm the

priorities of the work that they do. Though new jobs may result in slight compensation increases, it is more common for journalists to leave based upon disagreements with editors or to get their work in front of a larger audience, factors that do not undermine the performance of their employers. Bankers may actually downgrade the status of their employer in order to upgrade the terms of their compensation, a process that makes it difficult for any firm to develop an organizational culture of stewardship.

Unless financial services firms can learn to appropriately regulate the level of risk that each firm fosters within the economy, it is not clear that they should survive. There are other ways to provide capital and liquidity to firms. The chief development is the emergence of much more developed organizations on the buy side. Institutional investors, private equity firms, mutual funds, and hedge funds are large and diverse enough that it is no longer clear that banks are necessary to provide some of their traditional roles.

Banks are abusive and subordinating organizations that draw a huge supply of human capital to carefully scrutinize deals that firms conduct on a massive scale. Because many people wish to have the experience of working on these deals and because banks need to justify their extraordinary fees, an unusual supply of junior labor is deployed to do an excessive amount of busy work, updating numbers multiple times before reports are produced and meticulously perfecting reports and presentations. As such, the cost of banks is also the opportunity cost of all of the more useful things that these associates could be doing if their talents were directed elsewhere.

This is not to say that investment banks are incapable of contributing to social value. Global Investment has remarkably sophisticated philanthropy programs,

foundations, and active employee volunteer programs. Moreover, the employee spirit of public service through work is not the only estimation of value. Whether baseball players are in it for the money or in it for the love of the game, their fans are still glad that they play to win. The customers of banks apparently receive enough value from the banks to justify paying very significant fees.

I sit on the fence regarding the fates of investment banks. Interestingly, I find it much easier to call for the survival of papers than I do the destruction of banks. Others are not so reserved. Michael Lewis, for instance, writes, “The problem wasn’t that Lehman Brothers had been allowed to fail. The problem was that Lehman Brothers had been allowed to succeed” (Lewis 2010: 262).

Let us try to make sense of this view of bank failures using the four different propositions of failure laid out in Chapters Five and Six. First, consider the utilitarian lens. On the utilitarian account, we might interpret Lewis’s quote in the following way: the problem with failing banks was not that they served a higher purpose, but that up until failure they had persisted in a way that actually caused harm. Lehman Brothers deserved death, because Lehman was a perverse profiteer, a firm that had positive economic value, but negative social value. The utilitarian view seems to provide a relatively consistent interpretation of Lewis’s claim. Lewis argues that the banks were incompetent in their oversight and understanding of their own businesses, and that this incompetence created risk for the entire economy.

The second and third lenses are less useful, not just in interpreting Lewis, but in making sense of the bank failures. The second lens concerns the violations of rights, and

the importance of duties. But the major problem in the banks was not a violation of human rights. In most cases it doesn't even seem to have been a serious breach of fiduciary responsibility. Rather, it was hubris, weak regulation, and a failure to apprehend the risks associated with novel structured "vehicles."

The fairness perspective is likewise less than helpful in making sense of the situation with the banks. Clearly, these entities were legitimate. Their credit was the gold standard. Their jobs were highly sought-after. They were the authorities on the value of not just firms, but on creations of derivative relation to everything else, artifacts of financial engineering that were value constructs of the highest order. These firms were legitimate enough to create derivatives, and then to convince others that they could determine ("calculate") the value of that which they had created. Perhaps there was a failure in cooperation. Perhaps flatter organizational hierarchies, more open dialogue, and more self-critical organizational cultures might have led to reflection and constraint. But this seems doubtful. Stakeholder fairness provides no more interpretive power in the case of banks than human rights or the harm principle. These approaches cannot explain whether Lehman Brothers should have been allowed to fail, nor can they interpret the meaning of Lehman's success.

The entitlement perspective offers the most substantive interpretation of Lewis's claim. It is not merely that Lehman's success was harmful. It is that Lehman did not deserve success; that their success was in some sense disingenuous, imagined, or unreal. And this is precisely the perspective that the entitlement theory holds. The banks generated profit and tremendous wealth until the moment when the bottom fell out. On

Lewis's account, it was not merely an arbitrary eventuality or regrettable circumstance. It was a predictable oversight made by an entity that had not deserved the wealth that it generated. What is most interesting about the property-based approach is that it allows for the contradiction that Lehman had not, for some time, been generating morally substantive entitlements to profit and that Lehman should survive. This is a result that differs markedly from the utilitarian perspective.

Drawing upon a history of Lehman's distributed profits could easily have reclaimed the cash necessary to cover the losses in mortgage-backed securities. The question is, on what basis could such a reclamation be undertaken? Where is the crime? What is the tort? Where is the contractual breach? The answer relates to the system-wide effects of Lehman's failure. When one firm comes to occupy a central position within an economy, its shareholders and employees benefit from that status: they profit from the firm's centrality and from the transactions that it underwrites. These benefits may be said to create special obligations that relate to the risk involved in having a firm be so central. That firm should be more cautious rather than less cautious, and insofar as the employees and shareholders benefit from the firm's lack of restraint, they owe restitution to the other entities whose debts went unpaid by the firm's collapse. On this view, it is not the American public that should have bailed out Lehman, or AIG, but the thousands of employees, current and former, and millions of shareholders, current and former, who derived wealth from the firms that were apparently not being managed with appropriate care. If anyone is responsible for the consequences when Lehman failed, it is those who benefited when it succeeded.

The reclamation approach provides an expansive vision for some of the parties who should not have profited, some of them work for banks and packaged mortgages in tranches that were destined to lose money. Others coordinated fraudulent loans for people who did not have the credit to justify the mortgage. Others wrote derivatives contracts that created quantities of systemic risk that were ignored for short-term gains. At this point, the effort involved in attempting to blame these parties seems tiresome and counterproductive. These strategies have already given way to the next vulnerability in the financial system, and the next spate of scandals will prove that solutions from the last were insufficient.

But there is a remarkable simplicity in the ETHOS response to these problems. Each of these individuals would have received revenue associated with these troubled assets. Their revenues would be the first to be reclaimed, and this personal risk might have seriously altered individual actions, not just for this incident, but for many possible future schemes as well.

In the end, the question of whether the banks should survive is a political one, as are all of the analyses of the crisis. There are enough moving parts of an economy that one can point fingers at the regulatory structure of choice. Posner explains the process:

People are pointing fingers of blame in all directions. Many of these are people who are eager to deflect blame from themselves or who see some other career advantage in pointing the finger in the direction they do. The left is blaming the stupid, greedy, reckless, and overpaid bankers (as it deems all bankers to be), and is being joined by Congress and many in the media, who sense political and commercial advantage, respectively, in a simplistic populist explanation for economic failures. Some on the left are also blaming financial deregulation and lax enforcement (during the Bush Administration) of the remaining regulation and conservative macroeconomists and conservative finance theorists for arguing that depressions were a thing of the past and asset-price bubbles an illusion. The right

is blaming the government for encouraging mortgage lending to people with poor credit. Investors are blaming credit-rating agencies... behavioral economists are blaming everyone in sight, including bankers and borrowers, for exhibiting irrational exuberance during the boom that preceded the bust. The chairman and members of the Federal Reserve are blaming the fragmented structure of financial regulation, the limitations of the Fed's legal authority and economic power, the global "savings glut," and mistaken assessments of bankers of the risks created by novel financial instruments. There is little disinterested analysis of the causes of the depression; most of it seems motivated by political and career concerns. (Posner 2010: 250).

Posner's longing for an impartial analysis is understandable, but as he realizes, no analysis of a single cataclysmic historical event will provide a pure demonstration of causation through which blame can be conclusively established. He is arguing for caution in the development of economic policy aimed in a knee-jerk fashion, and this seems reasonable.

I have argued for a system of financial regulation that takes seriously the origins of income and the fairness and justice of those origins. For some of the causes that Posner lists, a system such as that would offer little help. It will not undo the problems of irrational exuberance or bad monetary policy. However, it might lead to a more careful analysis of the long-term effects of an act. This alone may be enough to keep important organizations socially and financially viable. When it comes to Global Investment, Walls Investment, and Open Investment, interviews convinced me that these organizations were actually better than their peers. I therefore affirm the profit reclamation perspective and argue, against Lewis, that failure was not the best way to teach the lessons of financial stewardship, but I agree with Lewis that none of these firms should have been allowed to succeed.

Conclusion: Rebuilding the Iron Cage

How do institutions change? According to Weber, capitalism provides an iron cage of rationality, a burden of inescapable normative control that leaves little room for a course correction:

The capitalist economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live. It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalist rules of action (1958: 51).

It is this inescapable cosmos that conditions the behavior of individual persons and the organizations that they inhabit. Weber concludes that this system of rules is also necessarily linked to the preeminence of external goods:

The Puritan wanted to work in a calling; we are forced to do so. For when asceticism was carried out of monastic cells into everyday life, and began to dominate worldly morality, it did its part in building the tremendous cosmos of the modern economic order. This order is now bound to the technical and economic conditions of the machine production which to-day determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force. Perhaps it will so determine them until the last ton of fossilized coal is burnt. In Baxter's view, the care for external goods should only lie on the shoulders of the 'saint like a light cloak, which can be thrown aside at any moment.' But fate decreed that the cloak should become an iron cage. Since asceticism undertook to remodel the world and to work out its ideals in the world, material goods have gained an increasing and finally an inexorable power over the lives of men as at no previous period in history (181).

The argument lays the foundation for the conception of organizations as institutionalized within rules of action that make organizations behave similarly, “isomorphically” (DiMaggio and Powell 1983). In one of the essays that founded the field of population ecology, Hannan and Freeman ask “why are there so many kinds of organizations?” (1977: 936) but the fields of population ecology and neo-institutionalism have instead

explained why there are so few. Post-failure continuity is an important innovation mechanism through which new organizational forms are created and recombined. Its role in the diversification of organizational forms is a matter of the first importance to industries that face cataclysmic failure. Organizational failure sounds an alarm of irrationality, calling the established logics into question and opening the way for “institutional entrepreneurs” (Eisenstadt 1980). But the new structures are less radical than this model implies, because the agents who hear the call most clearly are those who are best positioned to re-use the material that they learned in their careers at failed firms.

Fully or partially rationalized organizations are motivated by their own logics, and these logics constrain organizations and individuals alike. DiMaggio and Powell (1983) develop this argument using Weber’s metaphor of bureaucratic authority, the iron cage, to capture this sense of control within organizational fields. One cost of the forced isomorphism of organizational life is a reduction of diversity in organizational strategies and structures, and diversity is one of the chief sources of stability for a population in stress. As we know from biology, less diverse populations are more vulnerable to cataclysmic events. In biological terms, the phenotypical variation of a diverse population increases the likelihood that some subset of the larger population will possess the characteristics that facilitate survival as environmental conditions change (e.g. Fischer and Matthies 1998).

Organizational isomorphism can result in simultaneous or serial failures, and as failure occurs, the iron cage of bureaucratic rationality may be broken. Individuals are torn from their organizational settings and forced to make radical choices that can

redefine their careers and their industries. The organizational stresses that tear firms asunder also destabilize the assumed norms of business practice, and the change that ensues may be far more radical than what incumbent firms can achieve on their own. But radical or not, the odds are that most work practices will need an organizational context to call home. So, while the iron cage may be dismantled in the process of corporate failure, the savvy among its survivors may be the quickest to rebuild a new structure. Individual occupational histories yield proto-norms and proto-routines that could be re-established in new and alternative organizational settings. For freelancing journalists and entrepreneurs, proto-norms form a strong foundation for their subsequent pursuits. Those who embark upon more radical training and job switches find less substance to recycle

Key Findings

Though many of the observations in this dissertation have been specific to a larger argument about the nature of organizations and the careers of their employees, this section provides a summary of findings regarding mediating factors in the transfer of norms and routines, distinguishing between individual, network, and organizational levels of analysis.

Individual

It is the survivors of organizational failure who choose the organization's fate. They make the choice through their career ambitions and strategic decisions. A variety of individual-level factors influence the opportunities for persistence, including the following:

- *Mobility.* Survivors who will move to work face very different post-failure prospects than people who will not. Post-failure entrepreneurship is sometimes an occupational strategy necessitated by a desire to avoid a costly move. Mobile people can more easily join established firms by relocating to jobs in other cities.
- *Motivation.* Individual occupational goals are at least delayed, if not undermined, by the failure of an employer. People whose motivations were unfulfilled within the failing firm may take a fresh look at what matters, and a new set of priorities is sometimes the result. At the other end of the spectrum, people are powerfully motivated to continue their work regardless of the firm's fate if they view their occupation as a calling to which they are morally obliged.
- *Credentials.* Some of the people who are displaced from work by firm failures lack the credentials to find similar work in other organizations. Younger people may find it worthwhile to invest in more education to improve their occupational opportunities, but this may not be an option for more experienced individuals whose occupational achievements have surpassed their level of education. Credentials also channel survivors onto unexpected occupational pathways. Long-forgotten degrees are suddenly central to a new narrative of individual capacities.
- *Unemployment.* Failure causes unemployment, and unemployment presents a number of challenges for post-failure organizing. These can be emotional and psychological challenges, like depression. Yet, unemployment also presents opportunities. Unemployment benefits and severance reduce the strain of subsistence concerns, and allow survivors to experiment with entrepreneurial

projects or to develop new skills. The specific unemployment situation is therefore influential in post-failure trajectories. The more protected the economic situation, the more diversity of experimentation and pursuits.

This list provides some individual-level factors that have been observed to affect the transfer of routines and norms from failed firms into new and established firms.

Networks

Interpersonal networks are both a part of the firm and separate from it. The reporting relationships that define occupational networks for new hires may generate bonds that are strong enough to survive organizational failure, and even if the relationships were purely occupational, failure may strengthen them as individuals pull together to find information and support in the wake of failure. Some network processes that impact post-failure transfers include:

- *Social support.* Occupational networks provide social support to the survivors of failure. Though some people want to get away from the failed organization and the bittersweet feelings of remembering it, most remain tied into their social networks. Social support tends to affirm the group feeling necessary to impose shared norms and values.
- *Information.* Interpersonal networks provide the survivors of failure with useful information. Journalists find story ideas, freelancing gigs, and full time jobs through their connections. Investment bankers also find jobs, as well as information on the economic and social health of potential employers. The information tends to lead journalists and bankers into work that is similar to what

they did in their failed firm, because information is provided through channels that have an established understanding of an individual's capabilities and because network-wide information is spread within occupational groups.

- *Bricolage*. Post-failure entrepreneurs call upon the networks of their former peers to help cobble together necessary resources. Survivors are remarkably willing to help out with early stage projects and to utilize their special competencies. One might expect for network centrality to be positively associated with access to resources, and this is probably the case in investment banks. But in newspapers, it seems to eventually go in the opposite direction. Individuals who are central have many friends who claim to be interested in helping out with a project but are eventually concerned with their own pursuits. The strong expectations between friends are sometimes disappointed with organizational needs of post-failure projects exceed the motivation driving performance. In contrast to these friends who find disappointment, post-failure projects that emerge among people who do not know each other as well, but may be associated with the same failed entity, seem to form more durable collaborations. Parties who were less connected within the network of the failed firm (say, friends in common rather than close friends) have access to the same people, but they must concern themselves with making it worthwhile for any contributor to help, a more sustainable practice for any organizer.
- *Process*. Many processes, whether routines or norms, are embedded within interpersonal networks. In papers and banks, the physical assembly line may not

exist, but the interpersonal analogue is a productive routine that involves multiple individual actions chained together between people who have limited upstream and downstream interaction. A freelancing journalist may get to know a source without ever meeting that source's peers. Similarly, she may know her editor but rarely interact with the editor's colleagues or the managing editor to whom her assigning editor reports. Process relationships survive intact when individuals continue to serve economic roles that make them useful, like when freelancers get work writing for their former editors who now serve in different positions.

- *External ties.* The occupational networks established within failing firms characterize one important set of interpersonal ties in the post-failure environment, but pre-existing or external ties are also important factors in the persistence of norms and routines. Because organizational failures are public, people reach out to their former colleagues who moved to failing firms and are known to be victims of the firm's demise. This outreach may carry information about jobs and opportunities that are then delivered into the firm. It is common for managers to use their own personal networks to help their subordinates to find jobs, thus increasing the likelihood of transferred routines and norms.

Networks, and their component relationships, are crucial to most survivors of organizational failure. Though the methodological framework utilized in this dissertation does not permit the analysis of social structure, it is clear that relationships are an important pathway through which norms and routines survive organizational failure.

Organizations

Organizational characteristics play a role in both sending and receiving proto-routines and proto-norms. Formal organizations provide jobs, revenue, legitimacy, direction, hierarchy, established process, and community. Though organizations do emerge from failed firms, most survivors find jobs within incumbent firms that can use the survivor's human and social capital. Some of the key organizational factors influencing the transfer of norms and routines include:

- *Performance.* Localized dysfunction can undermine a larger organization despite high performance elsewhere in the firm. Because economic actors understand this, a career association with a failed firm is often discarded as an individual performance indicator. Instead, hiring firms look to individual and work group performance to determine the capacity of the individual. Local organizational performance is therefore a factor in the jobs that people get, but the influence of organizational performance does not end with the transition to the next firm. Insofar as former employees are understood to have come from higher-performance organizations, the routines and norms that they share with their new colleagues are likely to find a more receptive audience than if the employee is perceived to have come from a backward, underperforming division of a failed firm. Survivors might also rely upon the perceived performance of the failed firm in determining what routines and norms ought to be transferred. Assuming that individual employees are able to assess the relative performance of their prior routines and norms as compared with the routines and norms of the receiving

firm, it is expected that high-performance organizations would be more likely to transmit routines than underperforming organizations. While it is often difficult to assess the global performance of a given process, the incremental comparison is quite workable.

- *Hierarchy*. Reporting relationships sometimes survive failure, either when work groups remain intact or when management-level hires bring on former employees. The relative authority of the survivor within a firm that she joins (or founds) determines her ability to transfer norms and routines. Positions of authority enable the adoption of proto-norms and proto-routines that could not easily be proposed up the chain of command by subordinates, regardless of the business case.
- *Redundancy*. New positions within incumbent firms range from completely redundant and similar to existing positions to novel and alternative. More novel positions afford more direct transfer of norms and routines because the process has not yet been determined or established.
- *Receptiveness*. Some organizations are more interested in learning from their new hires than others, and receptiveness can also be uneven within a given organization. Receptive organizations that effectively receive feedback and respond to criticism are more likely to permit the transfer of routines and norms.

These are only a few of the organizational factors that influence the transfer of norms and routines into established firms.

Limitations

This dissertation explores the post-failure career trajectories of employees after they lose their jobs. Its limitations are as follows:

This study cannot document rates of post-failure entrepreneurship in the overall economy. The external validity of the study is limited by its sample and its method.

Given the short time period during which this study was conducted, it is unlikely that the turmoil of the newspaper industry has come to an end. Moreover, the investment bank appears to have reached a state of partial equilibrium where, subsequent to a few major failures and near misses, the industry has managed to garner enough public support to avoid further casualties. Nothing is certain, but the dynamics of banks seem to be in the hands of a few dominant players who are unlikely to be overturned in the near future.

The accrual strategies for the study also present a limitation. The primary investment bank contacts have been identified through the alumni database of a single large university. These respondents do not represent the entire population of the failed firms, and no data on employee demographics were accessed to compare with the participant pool. Relatedly, the post-failure narrative developed here in both industries describes a highly valued employee with specialized skills and knowledge. This research is not generalizable to many undifferentiated and temporary positions occupied by working class and working poor individuals.

The study focuses on two industries. Insofar as the career experiences of individuals within these industries are similar to other industries, the research has broader

implications, but in an ideographic sense, this is a localized study of career outcomes. It will not be possible to generalize to all failing firms, or even to firms of all sizes.

Because this research is almost entirely based on self-report responses, the research is subjective and vulnerable to a number of inherent biases. Though the strategy of retrospective sampling permits some basic analysis of career history for causal inference, there are some reasons for concern given the single source of data and the single survey administration. It might be preferable to do as Harris and Sutton (1986) did, interacting directly with employees of failing firms as they fail, but this strategy was unfeasible for the current project because it would not be possible to identify which individuals would eventually transition to firms of interest or start their own.

Nonetheless, despite these limitations, I believe that this study contributes significantly to the literatures of business ethics, organizational theory, and entrepreneurship. Globally, the International Labor Organization predicted that 50 million jobs would be lost in 2009 (Pickard 2009). A better understanding of the organizational destruction and re-creation that occurs through job displacement and inter-organizational continuity may help to explain the social and economic costs and opportunities of these job losses.

Suggestions for Future Research

This project touches upon a number of topics that warrant further examination. I will highlight a few that I view as most important and feasible.

- As Chapter Five makes clear, the field of business ethics has yet to make sense of organizational failure and the question of which firms should fail, but the lacuna is

larger than that. In fact, business ethics has done little to account for the changes in organizations that occur across the organizational lifecycle. Do young firms have special leeway to learn? What is a responsible rate of growth? Do the implicit understandings of employment agreements differ depending upon the age of a firm? How does a firm fail with grace? These are a few of a great many questions that have received less attention than they should, given the dynamics of organizational growth and decline.

- Newspapers and investment banks are two industries where professional, highly educated people are able to adapt their skills to new contexts. What of other industries where firm-specific human capital investments are much greater? Failures are frequent enough that there is room for an experimental study that provides entrepreneurial guidance for failure survivors and compares outcomes to control subjects who receive no such support.
- This qualitative study would greatly benefit from a quantitative follow-up. Beyond the basic question of how often key routines are believed to transfer, mediating factors such as whether the firm disbanded, whether the failure was civil or conflicted, the geographic opportunity structure, and the nature of the work could all significantly influence the process described herein.
- Occupational networks come from careers, but the opposite process has received far more attention (Granovetter 1973). More realistically, networks and careers co-evolve in a process that involves sorting, skills development, trust formation, and availability. Organizational failure provides a mostly-exogenous shock to these

- networks, and it would be interesting to study the way that network ties respond to these shocks. Many respondents noted incoming ties based upon a public understanding of a failure event. Editors received calls that allowed them to help place their subordinates and journalists heard from old colleagues who were thinking of them and wanting to see if there was anything that they could do. Though organizations might benefit from failing quietly, employee interests might be better served by a public incident.
- Chapter Six proposes a radical redefinition of economic responsibility for a firm's transgression. Clearly, much more work needs to be done before this redefinition could serve for more than a thought experiment. As a first step, one might seek to establish the precedent for historical property-based accountability in pre-capitalist societies, and the governance properties associated with such accountability. Chapter Six calls the top-down governance paradigm into question, but the system of network-based interpersonal accountability that would replace remains a rough outline of a drastically different constellation of social relations.

Research and Practice

The main empirical topics of this dissertation, organizational failure, post-failure organizing, and the survival of norms and routines, are matters of moment. For the survivors of failure, the post-failure transition is a difficult, uncertain, and sometimes defeating process. The salience of this experience makes it important as a subject of research. Insofar as management science is to be a science of compassion that recognizes the human costs of organizational outcomes (McGregor 1960), then failure must be

understood in these terms, and public policy must focus upon reducing the costs of industrial transitions such as these.

More focused, if not more compelling, are specific concerns for the fates of two vital industries: newspapers and investment banks. Both provide an indispensable service. One does so at a cost and risk that is far too great for the public to bear. The other does so at a benefit that is not nearly covered by the actual costs incurred. For those who would reform these two industries, I suggest that they look no further than the careers of those journalists and bankers make their living within them. Insofar as the career of a journalist aspires to a greater purpose and seeks to fulfill the promise of public journalism, public policy should seek to protect the fair compensation of this work. As Baker argues (Baker 2002; Baker 2009), this is already done through provisions of copyright law and postal subsidy, and these provisions should be updated for an era where copyright protections and postal distribution are no longer sufficient to ensure fair compensation for journalistic labor. And insofar as the career of an investment banker aspires to nothing more than the generation of wealth and the accumulation of status, the system of investments is likely to remain vulnerable to the excesses that go along with perverse incentives and unjustifiable risk.

To be clear, I do not think that bankers lack character, or that they cannot find a sense of purpose in the work that they do. I have shown, however, that such purpose is obfuscated by the intensive and active maximization of income encouraged by careers within banking. Many of those who sought a sense of purpose after their banks failed, looked elsewhere within the industry or to other industries entirely. Though the

preservation of the American and global financial system through public subsidies was almost certainly stabilizing to the larger economic order, one must wonder about the path not taken, and the lessons that would have been learned on that course. It seems likely that the few financial analysts and bankers who chose to ply their trade after a financial apocalypse would do so with a sense of stewardship beyond the maximization of wealth, and this, I fear, we still cannot say of the financial services industry as a whole.

APPENDIX A: ORGANIZATIONS

Adant: Acquired several business units from the Global Investment Estate, merging some units (with massive layoffs) and acquiring others to expand to businesses that the firm had not been involved in before the acquisition.

Afternoon Dispatch: This high-functioning afternoon daily experienced ongoing organizational decline in resources, but nonetheless managed to maintain a solid news legacy in its region. Surviving most afternoon dailies, the paper closed amidst declining subscriptions and declining advertisements. Controversially, the Dispatch's parent company is reportedly able to make more money from the joint operating agreement with another paper in the city than it was while the Dispatch was operating, a fact that runs against the anti-monopoly intentions of the policy that first authorized these agreements.

Capital Investment: Large investment bank that nearly collapsed but was instead acquired through a distressed acquisition.

City National: A large metropolitan daily, the City National has gone through a bankruptcy, an ill-advised acquisition, and several rounds of layoffs. The organization began its cost reduction strategies with buyouts and then continued by laying off relatively senior employees, many of whom were very well regarded. Sampling for this study focused in a round of layoffs that seemed so tenure-inspired that the layoff packet included a list of all employees who had been laid off and their ages to ward against an age discrimination lawsuit. Unlike the Regional Post and Local Blotter, the City National has experienced very significant decline.

CityNews.org: Formed by senior editors and well-regarded journalists from the City National, this organization provides web-based news, in-depth coverage of city politics, and a local insert for a regional edition of a national paper. The organization hired some well-regarded journalists from the City National and hired others who had been laid off by the paper.

Dispatch Journal: Peer paper to the Afternoon Dispatch that hired several employees when the Afternoon Dispatch failed and then laid most of them off one year later.

Enclave Investment: Large financial services firm that acquired Capital.

Global Investment: Large investment bank that entered bankruptcy and was broken into pieces. The bank is the main subject of the investment banking portion of this study.

Highway Herald: Purchased by a former employee of the Regional Post, the Herald provides news in a small town that lacks any other news source. The Herald distributes its papers in newspaper boxes that were purchased from the Regional Post, and the paper's design was created by friends of the purchaser from the Regional Post.

In Region Times: The first post-failure project in the wake of the Regional Post's closure. The project received a lot of coverage and interest, but subscriptions were lower than organizers had anticipated and funders provided much less support than the founders anticipated. As the relationship between the organizers and the investors degraded, more than 20 former employees from the Regional Post quit the project, so that only one former Post employee remained.

Independent Regional Post: The second post-failure project in the wake of the Regional Post. Like the In Region Times that preceded it, the Independent was meant to rely upon a

hybrid online-only subscription model. The paper would provide pay content along with free content for any site visitors. The project failed when subscriptions did not materialize and founders received less support than the project required to be sustained.

Lichenson: Entity that merged with Global Investment for several years in the 1990s then separated several years later.

Local News: Sister paper of the Local Blotter serving the same region. Included here as a paper that has hired several people who were laid off by the Blotter, sometimes onto nearly identical beats. The Local News is a slightly lower status paper than the Blotter.

Local Blotter: Large metropolitan daily that went through significant suburban expansion in early 2000s, and then experienced significant reduction in revenue a few years later. The firm entered bankruptcy and subsequently conducted a round of layoffs that were mostly last-in, first-out, with a number of exceptions made for employees whom the management wished to protect.

Open Investment: International financial services firm that purchased several offices from Global Investment.

Regional Post: Well-known paper with a long legacy owned by the same company as the Afternoon Dispatch. The publisher sought a new owner, and when that failed, the paper was closed. Though it experienced a slight decline, its coverage was award-winning to the very end and its very loyal subscription base showed some interest in a series of post-failure projects, but these transfers have not materialized as entrepreneurs had hoped.

Regional Tribune: Competitor of the Regional Post, shared publication and distribution services through a joint operating agreement until the Regional Post was shuttered.

Tech Inc.: A technology company based in California.

Walls Investment: Walls Investment was privately owned into the late 1990s and then went public for a short period of time before merging into Global Investment in the mid-2000s. The firm serves institutional investors and provides private wealth management services as well. The fund managers of Walls acquired the firm from the Global estate along with a significant debt obligation.

APPENDIX B: STUDY PARTICIPANTS

Adam: Worked for Global as a summer intern, and turned down an offer just after the firm's bankruptcy was announced. Adam is now pursuing a career in the arts as a first-year student in a highly competitive master's program. He says that the professionalism, work ethic, and focused interview process that he learned about through Global Investment probably got him into graduate school.

Alexis: Worked at Local Blotter and was laid off as a relatively junior hire. After being laid off, Alexis spent months doing disaster relief, and then settled into two years of freelancing and self-publishing children's books. Just over two years after being laid off, Alexis was hired back into journalism by Local News, the sister paper of the Blotter. Alexis loves to write and could always focus on that part of the work, even when writing for a corporate website. She transferred her newsgathering process and understanding of the news organization, but lost the opportunity to do work that she valued. Now she's back writing about major social issues, albeit for a somewhat lower-status paper.

Andrew: Left the City National after almost 20 years in journalism in order to join a public relations firm. Andrew broke some important stories for the National, but recognized the economic slide that the organization was taking (other respondents describe his foresight), and decided to switch careers shortly before a massive layoff of senior reporters. Andrew uses his understanding of the news process to advise firms and individuals on how to manage news exposure. He continues to rely upon his contacts from the National, serving as a mediator between clients who don't know what is newsworthy and reporters who don't care about information that is not newsworthy. He

says that others might feel dirty doing the work that he does, but he knows how the game is played.

Anna: Moving from another large bank, Anna joined Global Investment one year before its closure. Though she was not the most senior person in the group, her background in accounting provided a credential that kept her tied to the foundation, and she was able to move to Walls Investment. Though Walls Investment has fewer resources for the foundation and a slightly different mission, almost all of the work and the strategy that she learned at Global applies directly to the Walls context.

Art: Officially laid off by Global and then rehired by Open Investment, Art transitioned from a role of customizing financial instruments for different regulatory contexts to a very similar role at Open Investment. He was away from Global on personal leave during the bankruptcy, but he was laid off by Global and rehired by Open along with the other employees. Art found that the Global collapse liberated his division from Global's control and that Open has been much more flexible with their office. Most other routines have transferred, though he notes that the lost business caused by the period of uncertainty when his division had no clear organizational home and the need to rebuild credibility thereafter.

Ben: Worked as a copy editor at City National for almost twenty years and then was laid off after a series of buyouts. During his time at the National, Ben served numerous different roles, many of which allowed him to continue writing stories on a regular basis, though editing was his main job task. Towards the end of this time there, his work tasks became less diverse as the size of the paper shrunk and the news organization began to reinforce a

more sharp distinction between writers and editors. Since the layoff Ben has been able to return to the diversity of work, and to the writing that he had missed in his last years at the National. He thought that being laid off would put an end to his career as a journalist, but he's been surprised to find opportunities as a freelancer to write stories and do interviews. He met the editor of a college alumni magazine while taking his son to orientation, and has since been writing for them along with editing for a small publisher.

Bob: Worked for the Regional Post part time and did part-time freelance work for several years. During this time he published a book on one of the major stories that he'd covered, which was released shortly after the Regional Post disbanded. Though freelancing was much more a part of his experience than others from the Regional Post, Bob finds that the freelancing work has dried up. Because budgets have decreased and sections are shrinking, it is more difficult to find work, and the work pays less. Bob is working on his second book, which is long-form journalism and uses many of the same techniques that he would use to write a feature story.

Brian: A writer by avocation, he came to the City National by way of a strong publishing record as a freelancer in Eastern Europe. He was laid off by the National and has since been trying to publish a novel. For him, the layoff was liberating. It got him started on his dream of writing a novel and released him from a dysfunctional organizational culture in which he found it very difficult to get a story published, much more difficult than it had been as a freelancing outsider for other papers. Brian continues to use his journalistic research techniques in his fiction writing.

Carl: Covered high school, college, and professional sports for the City National. After being laid off, Carl used his connections to local sports to find a position writing stories for the sports department website of a local private university. He continues to rely upon the same norms of fairness and relational trust to cover athletes that he learned to follow as a newspaper journalist.

David: Worked as web sports editor for the Regional Post until it closed, and then has been involved in a number of post-failure projects. He was a major force in the In Region Post and when that project disbanded because funding fell through, he was one of the three lead editors in the Independent Regional Post. Beyond these significant experiments in online subscription models, David also helped a number of his colleagues to develop their own personal websites to cover the news (especially sports) outside of the bounds of a paper. Through the post-failure projects, David worked with a communications firm that now uses his services to design and update websites. Most of his freelance work comes from designing websites, and writing and editing copy for websites.

Earl: Employed as a regional expert for Global Investment in Asia, Earl's division was acquired by Open Investment. Unlike the European experience with Open, those whose offices were closer to the home office of Open experienced a much more aggressive imposition of culture and organizational norms. Earl stayed with Open for over a year, but eventually resigned with plans to find work in the U.S. Throughout the transition into Open and since, Earl has continued to play a very similar role in the work that he does.

Edward: Went to Global Investment to develop skills in finance having already started his own company and worked for a private equity firm. As an analyst, Edward covered a very

vibrant industry in a domestic outpost office. He chose not to renew his contract with Global, and instead took a job with a hedge fund. A few months later Global was laying people off from his division. Edward has since taken a position in an Internet startup.

Ellen: One of several long-tenured employees who took a buyout from City National, Ellen thought that her retirement was set until her portfolio lost more than 30% of its value. In order to supplement her retirement savings, she continues to cobble together freelance opportunities, mostly identified through her contacts from the paper. These opportunities include writing for smaller publications and writing copy for other purposes. She notes the very significant challenges that older people face finding work and has entirely given up on the possibility of finding a full-time position.

George: Worked as a management consultant before going back to business school for his MBA. After receiving his MBA, he started at a Global Investment trading desk. He was assigned to trade an asset class that was rather inactive at the time, and he found the Global experience to be a major disappointment relative to his experience in management consulting. George was laid off by Global Investment and after that, he changed a number of things in his life. He chose to move to a city where he believed that the quality of life was better. He chose to find work in consulting because he liked the people and the norms of collaboration. Though he left investment banking behind, he says that the focus in banking on making a clear decision and being able to explain why you do it has improved the way that he does consulting.

Gerry: After over 30 years as a copy editor and graphics editor at City National, Gerry was laid off. Since then he has experienced endless frustrations in his job search. Of the hundreds

of resumes that he sent out, only one received a response, and that opportunity failed to materialize into an interview. Gerry's wife was laid off almost simultaneously. Her job search has followed a different course. She has had dozens of interviews, but no offers. They attribute the difference to the fact that her recent master's degree makes her seem younger on paper. Both believe themselves to be victims of age discrimination. The work that Gerry has found arose from an almost-forgotten master's degree in sociology that qualifies him to teach in a for-profit online university and a local city college. He receives \$1500 to teach multiple sessions per week of a five-week intensive class. If the pay were enough to make ends meet, he wouldn't mind the work, and he likes using his editing skills to work with his students on improving their writing. But because of the pay, his job search continues.

Gretchen: An experienced photographer, the Regional Post hired Gretchen to work with some of its photographers and to help them to improve their work. When the Regional Post collapsed, she was hired by the Regional Tribune, the Regional Post's sister paper, to serve the same purpose.

Greg: Worked for the City National for over 30 years. His career there progressed from serving as a general assignment writer, to writing features, to writing in a news magazine, and then to a role as an editor later in his career. For the last five years of his time at the National, Greg was the editor for a section of the paper. At the same time, he began teaching journalism classes at a local college. He took a buyout because he feared that the City National would lay him off or transfer him to an onerous position like midnight copy

editing. Fortunately, his work at the college allowed him to transition into a full-time position teaching and advising the student paper.

Helen: An eminent journalist at the City National, Helen left the paper to pursue an opportunity as the leader of a nonprofit. Her transition ended up being extremely well timed, as many of her friends and peers were laid off shortly after she left. Helen continues to approach her work as a journalist. On every trip that she takes, she sets up site visits and documents the organization's work and its purpose through her leadership position. She believes that journalists underestimate the power of their skills when applied to other job tasks.

Henry: After 40 years in journalism filling various roles at City National, writing, editing, and selecting visuals for publication, Henry took a buyout and began working as an editor for CityNews.org. There he continues serving as an editor and working on visuals.

Jack: After a distinguished career at the City National, Jack was laid off when the section that he edited was consolidated and its coverage drastically reduced. He took his experience in political reporting and used it to move into a position in government relations for a local college. Jack's job is a combination of PR, political lobbying, journalism, and teaching, and while it continues to involve the content knowledge, skills, and connections that he developed through journalism, he does miss some aspects of the newsroom experience, though perhaps not as much as he had expected. He describes himself as being in a 12-step program to recover from his addiction to journalism.

Ruth: Worked her way up through the ranks in photography at the Regional Post. Ruth was laid off when the paper collapsed, and hired by another paper almost one year later. That paper laid her off with its entire photography department after three months. Six months

after that, Ruth found a job in photography at a third paper. Ruth has had a difficult time finding an organization that would provide her with the opportunity to use her training and talent.

Jason: While serving as a national correspondent for the Regional Post, Jason became interested in small, local papers. He used his travel as an opportunity to learn more about these papers and when the Regional Post closed, Jason found a paper to buy. Owing nothing but a car, he poured his savings into the Highway Herald, his first major investment. Jason gathered numerous resources from the Regional Post and also from his background in journalism. The Herald has no online resources, and it is flourishing.

Jeff: Was a general assignment photographer for the Regional Post. He launched a career as a freelance photographer after the paper closed. Jeff arrived at the Regional Post with solid photography skills, but he says that he learned to be a journalist through the mentorship and intensive feedback that he received at the paper.

Jen: As a junior analyst at Walls Investment, Jen remained employed through the Global Investment collapse. Though more senior analysts were fired to reduce payroll burden, Jen kept her position. Walls brought one of its former fund managers to serve as head of research and under his leadership the relationship between research and investment advising improved. Jen's job remained relatively consistent throughout the transition.

Josh: A photographer at the Afternoon Dispatch, Josh and his wife have been able to develop a wedding photography business that seems reasonably successful. They have even been able to hire some of their former colleagues to shoot some of their weddings. The emergence of a photojournalistic aesthetic in the wedding photography business has

helped Josh to make immediate use of his style of photography and the routines with which he relates to his subjects.

Judy: Worked for the Global Investment foundation, and was one of the few employees who moved from Global to Walls when the foundation was relocated to that organization. Judy has been able to keep up with the commitments of the foundation and to begin to develop relationships with Walls Investment employees that are akin to the relationships that connected Walls employees with their foundation, a sense of ownership that is a very important part of her approach to corporate social responsibility.

Karen: Worked on presentation side of Regional Post. After the paper closed, she served as a caretaker in her family for a period of time, and has most recently taken an international position as an editor for a national media organization.

Katrina: Wrote for the general assignment desk at the Local Blotter until being laid off by that paper. She was able to find a job at Local News, and was quickly transferred to cover the same beat that she'd covered at the Blotter.

Keith: Left Capital Investment two years before the firm's distressed acquisition. He took a sabbatical at that time before moving to a small firm. Keith's interview demonstrates the similarity between the transitions within the industry during failure and under less economic stress. The financial services industry is characterized by numerous occupational transitions. Note: Keith does not fit into the sample because he left the firm so long before its distressed acquisition.

Ken: Served as a photographer for City National and won numerous awards. Took a job at CityNews.org, and continues to shoot with the same aesthetic.

Kevin: Worked as a junior analyst at Capital Investment. Decided not to stay on beyond his two-year commitment, and left just before Capital's demise. His manager at Capital helped him to find a job with former colleagues at a hedge fund. His group was eventually split into an independent fund to which his employer contributed. He was transferred to another project, then hired by the split-off fund, and eventually laid off. Kevin described the lessons he learned at Capital as exceedingly narrow, but nonetheless useful. He found the investments of the hedge fund and its subsidiary to be reckless, and wasn't surprised to see the fund collapse. He is now working to develop a similar investment product outside of a bank and then to broker it into a job.

Lisa: A promising young reporter at City National, Lisa was laid off along with many long-tenured employees. She found a job working for a nonprofit science organization where she applied her skills as a journalist to explain the organization's purpose and to tell the stories of its employees. At the same time she continued to write stories as a freelance journalist, one of which was published on the front page of the City National. She continued to network with journalists and to participate in some national organizations, and after over a year at the science organization, Lisa received an offer to return to journalism.

Maria: As a science writer for the Afternoon Dispatch, Maria distinguished herself by making some of the technical stories clear to the paper's audience. One of the few people from the Afternoon Dispatch to be hired by the Dispatch Journal, Maria was laid off shortly thereafter. She decided to relocate without a job. She writes a blog and describes herself as a "recovering journalist."

Mark: Mark covered business for the Local Blotter, including the Blotter's bankruptcy. He chose to leave the paper to get a job elsewhere in order to protect another employee from a layoff. Two years later he was rehired by the Blotter, and continues to write for them.

Mary: A fairly serious writer, Mary came to newspapers by way of literary and travel magazines. She won awards for her writing at City National, but she was laid by the paper in a spate of dismissals. Mary has since spent her time as a caretaker and writing for an online project. The transition has been difficult and she is unsure when she will be ready to search for another job.

Michelle: After being laid off from writing features for City National, Michelle was hired to work for CityNews.org. She continues to maintain relationships with a number of her former colleagues from the City National, many of whom were laid off at the same time that she was.

Nathan: When Global Investment went bankrupt and was acquired by Adant, Nathan had already survived two mergers at other banks starting in the late nineties. Nathan's project at Adant became high profile within the firm, but conflict within the organization made him accept an offer at another firm. He found his latest job through a former manager from Global, and was able to make a transition from working on the tech side to managing the technological support structure that was already in place.

Norm: Worked in layout and design for the Regional Post for almost twenty years. Has been involved in post-failure projects like the Independent Regional Post and the In Region Times. Norm is closer to retirement than some of the other entrepreneurs, so for him these projects provided an opportunity to practice digital photography. For years he had

been selecting and positioning photographs, and now he was able to shoot them. He continues to be involved in some web projects in his spare time.

Olivia: Beginning as a copy editor, Olivia worked at several small papers before she landed her first position at the City National. She eventually became an assigning “middle management” editor there. Later, Olivia edited features and made the unusual transition to serving as a staff writer. She wrote on a single topic for almost a decade until she was laid off. Since she has been trying to work with nonprofits related to her area of expertise, to help them with their communications. She has been very successful at doing this on a volunteer basis, but has had trouble getting the organizations to pay for it.

Patrick: After twenty years in journalism, Patrick spent his last five years at the City National writing for a business section on technology. Then he was laid off. He has since been working for tech blogs, ghost blogging for companies, and helping with communication strategy.

Paul: Freelancer worked with CityNews.org as it began its development. Has since taken a job with a foundation serving as a communications and web strategy person.

Peter: An experienced sports writer, Peter worked at nine different papers and eventually took a buyout from City National. Since then he has been writing for CityNews.org, and has been appointed as the president of the Catholic High School that he attended many years before.

Phil: With a bachelor’s degree in English, Phil says that he got his first newspaper job in order to keep his “80s rock band hair”. Twenty years later, he was covering layoffs and the downed economy when he was laid off himself. He ended up finding a job as a news

editor for a national online publication that focuses on local news and information about destinations. Phil struggles with the challenge of instilling the values and norms of journalism into a diffuse organization.

Rachel: A page designer for the Regional Post, Rachel was very involved in the initial phase of the In Region Times, but when that project failed the new business model had less need for a page designer. Rachel couldn't find a journalism job locally, and her husband's journalism job was worth keeping, so she decided to go back to school to get a master's degree in education.

Rebecca: After working as an analysis for over a decade in a medium size financial services organization, Rebecca decided to focus on classical music. She returned to Global Investment for a short time, but found her role in that organization to be unappealing and now continues to focus on her music. She also serves on the board of a local nonprofit music organization.

Richard: After twenty years with City National, most spent as an international correspondent, the City National laid Richard off. Fortunately, he anticipated the layoff and had a job lined up teaching journalism at a university outside of the US. Richard continues to write and to teach the norms of journalism to his students.

Rick: A photographer for the Afternoon Dispatch, Rick was laid off with the closure of the paper. He took time to travel internationally and to volunteer. Rick continues to freelance and has been working to start social venture that would subsidize photojournalism equipment and classes for underprivileged children in developing countries using revenue from wealthier photographers who want to learn to shoot.

Robert: Worked at Global Investment right out of college for just over a year before it collapsed.

The collapse led him to reconsider his career. Robert has since focused on environmental engineering, a part of his undergraduate training that felt more substantial and meaningful than his background in finance.

Roger: Roger went to work for Global Investment straight out of college. After four years he left for an MBA, and then returned to Global for a few more years. When Global collapsed, Roger's division was acquired by Adant. The day after receiving his bonus, Roger resigned and went to work for Tech Inc..

Roland: A talented photographer for the Regional Post, Roland's post-failure transition was particularly difficult, including a divorce, a number of sometimes-dangerous temporary jobs, and a failed odyssey to capture the last images of communities that would be destroyed by a massive river dam. Roland says that the year after the failure was one of the best in his life.

Sarah: Laid off from editing for the Regional Post, Sarah was heavily involved in post-failure organizing, both in the In Region Times and the Independent Regional Post. After these two projects failed, Sarah began developing her own freelance portfolio as a freelance editor.

Scott: A well-regarded business journalist, Scott left City National of his own accord in order to join CityNews.org. Scott's role is slightly different at CityNews: he is doing more to define the news that small organization produces and working to develop a partnership with a local public news organization through a different medium.

Steven: Worked at Capital until shortly after it was acquired by Enclave Investments. Moved to a multi-family office to manage a fund of hedge funds. When that office relocated, Steven went to work at starting his own firm. He believes that many investors wish to work with people who are independent of larger entities like banks, and that these relationships permit more trust.

Tim: As a photographer at the Afternoon Dispatch, Tim expected for the paper to eventually close. When it happened it was a great loss, but not much of a surprise. The job that he found at the Regional Post seemed like a much more secure position until shortly after he arrived, when rumblings of the parent company's search for a buyer began to be heard. When the firm collapsed, Tim returned to live with his family near where the Afternoon Dispatch had been. He continues to work as a photographer, doing some freelance and shooting for the Highway Herald, a part time arrangement that he found through common colleagues at the Regional Post.

Trent: A multimedia producer for the Afternoon Dispatch, Trent found another job relatively quickly at an international paper. He was laid off from that job as well, and then rehired by the parent company of the firm to work in the US.

Victor: After working in compliance at Global Investment, Victor departed from the firm at exactly the right time, narrowly avoiding the firm's bankruptcy. After finishing his MBA Victor found a job on the buy-side of the business working for a firm where he had interned during his MBA.

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