CLIMBING THE CORPORATE LADDER: HOW TOP MANAGEMENT TEAM STRUCTURE AFFECTS CORPORATE MISCONDUCT

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Abstract: To bolster the possibility of becoming the next CEO, the heir apparent of a corporation has both a level of expectancy and motivation to reduce corporate misconduct. Studies that examine the relationship between corporate misconduct and the succession of the heir apparent are limited. As such, this study examines how the expectancy of the heir apparent to become CEO influences the motivation of the heir to minimize corporate misconduct. The study's finding suggests pay gap correlates with levels of misconduct. This study contributes to the strategic management literature by advancing corporate misconduct research beyond examining financial misrepresentation to examining the influence of organizational structure on corporate misconduct.

Key Words: Corporate Misconduct, Chief Operations Officer (COO), Heir Apparent

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CHAPTER I

INTRODUCTION

Corporate misconduct, whether it be fraud or just not operating consistently with company values and mission, has been a consistent topic of conversation in the media and shows no signs of abating. From the collapse of Enron in late 2001 (Thomas, 2002) due to the use of accounting loopholes to Whole Foods being accused of systematically overcharging customers for pre-packaged foods in mid-2015 (Gillespie, 2016), the ramifications for participating in corporate misconduct can be severe. In the case of Enron, 5,000 employees were fired the day after Enron filed for bankruptcy (Paulsen, 2002). Whole Foods is still struggling to regain sales lost due to customers taking their business to other establishments (Gillespie, 2016). The government responds to corporate misconduct by enacting laws and policies aimed at lessening the chance of other organizations engaging in the same type of misconduct. For example, the Sarbanes-Oxley (SOX) Act was passed in July 2002 as a way of establishing governance around accounting principles and standardizing the auditing process. Whole Foods, on the other hand, was fined nearly $800,000 for their pricing violation (Isidore, 2015).

With organizations being assessed hefty monetary penalties, one would expect to see a decline in instances of major corporate misconduct. However, this is not the case. In 2007, banks such as Lehman Brothers and others engaged in excessively risky behavior through subprime mortgage lending practices; by 2008 a global financial crisis ensued (Harress & Caulderwood, 2013). Lehman Brothers did not survive their involvement in corporate misconduct as the investment banking organization crumbled in late 2008. Again, the government intervened and the Dodd-Frank regulatory reform was passed and the Basel III capital and liquidity standards were accepted worldwide in an effort to reduce the possibilities of this misconduct occurring again.

While many incidents of corporate misconduct result in laws and policies being put into place to discourage further misconduct, businesses continue to press the envelope. A discussion needs to be held around the structure of organizations and what factors encourage and discourage corporate misconduct. The resulting discussion could benefit from the participation of both researchers and practitioners in understanding the relationship among organizational structures, processes, and corporate misconduct. Researchers could expand the current stream of misconduct literature by examining antecedents and outcomes that go beyond monetary outcomes to both organization processes and the actors within organizations.

Practitioners would benefit from a discussion on organizational structure and misconduct in several ways. First, practitioners could leverage the knowledge to identify and recognize conditions that may incite misconduct. Next, policies and procedures that include training aimed at preventing misconduct from occurring could be developed and implemented. Hence, organizations could promote cultures that dissuade organizational misconduct from occurring. Finally, practitioners could benefit from a discussion around organizational structure and corporate misconduct in that succession / contingency plans can be developed should leadership changes become necessary due to misconduct. This preplanning would assist in minimizing the impact of corporate misconduct on organizations performance goals.

Ashforth, Gioia, Robinson, and Trevino (2008) suggest that misconduct is not only attributed to individuals inside the organization but within the organization itself. This is evident in the fact that both Enron and Whole Foods developed a culture where top management allowed misconduct to occur, either through direct involvement in the misconduct or by failing to implement procedures that would minimize misconduct. While research examines the actions of individuals who engage in misconduct, little research exists on the motivation and actions of top management team (TMT) members on minimizing misconduct. Therefore, a deeper understanding of TMTs of organizations as it pertains to minimizing misconduct needs to be developed to provide insights on the relationship between the motivation of TMT members and corporate misconduct. While research on TMT characteristics exists, the examination of TMT characteristics' influence on misconduct is lacking, and the types of misconduct studied has been restricted.

Research on misconduct tends to focus on various types of financial misrepresentation because these violations are tangible concepts where the consequences from violations are visible (Desai, Hogan, & Wilkins, 2006; Devers, Dewett, Michina, & Belsito, 2009; Flanagan, Muse, & O'Shaughnessy, 2008; Karpoff, Lee, & Martin, 2008). Consequences include reputational damage to organizations, boards of directors, or both and the loss of trust of investors and other stakeholders (Davidson & Worrell, 1988; Zahra, Priem, & Rasheed, 2005; Szwajkowski, 1985). Corporate misconduct can also affect the employability of members of the organization (Harris & Bromiley, 2007), as the involvement or association with misconduct could create a stigma around the individuals involved in the misconduct. This stigma could result in other organizations electing not to consider those involved for career opportunities. Organizational misconduct could also deter executives' willingness to be employed by an organization.

Fama (1980) posits that it will be challenging for executives to distance themselves from successes or failure of the organizations they lead, and such challenges will impact career opportunities. Misconduct on a large scale normally results in the termination of senior leaders in the organization. Examples include termination of Bernard Ebbers (CEO of WorldCom), Conrad Black (CEO of Hollinger International), and Dennis Kozlowski (CEO of Tyco) (*Forbes*, 2013). While these examples of misconduct involve the CEOs of the organizations, studies on corporate misconduct can be expanded to include the top management team as well. Expanding the misconduct studies to include other top management team members can provide insights about how top management team structure has an impact on corporate misconduct.

TMT structures vary from organization to organization. Members of the TMT are typically individuals whose titles are president (vice president or senior vice president) or senior executives whose title includes “chief” (chief executive office, chief operating office, chief information officer, etc.). Executive teams are tasked with overseeing the different areas of responsibility within the organization (Menz, 2012; Marcel, 2009; Carmen Díaz-Fernández, Rosario González-Rodríguez, & Pawlak, 2014; Canella & Shen, 2001; Hambrick & Canella, 2004). These individuals are responsible for the daily operations of their areas and have an obligation to ensure that they create an environment that minimizes misconduct. As we examine corporate misconduct, we must take a step back and examine possible causes.

In order for misconduct to occur, one or all of three factors must be present: opportunity, incentive, and rationalization (Chen, Cummings, Hou, & Lee, 2016). While most managers would say they behave ethically, situations where both the pressure to achieve and incentives to achieve organizational outcomes have been shown to entice members of management to engage in misconduct (Harris & Bromiley, 2007). Monetary incentives for top management have grown from 100 to 350 times and in some cases 570 times the compensation for the average employee (Harris & Bromiley, 2007). With the pressure and incentives to achieve, one may wonder whether the structure of top management teams could impact misconduct.

Every member of the TMT is responsible for an area of the business. The chief operations officer (COO) generally is responsible for overseeing all facets of daily operations within the organization. The value of the COO role in organizations is of interest to researchers. The importance of the COO is still subject to conjecture. Some researchers subscribe to the thought that having a COO benefits strategic decision making. The COO role is responsible for conveying and implementing organizational strategies and allocating resources and resolving business conflicts (Hambrick & Canella, 2004), consequently improving organizational performance (March & Simon, 1958; Marcel, 2009). Critics of the COO role posit that the existence of a COO adds increased cost to an organization and introduces accountability issues by allowing the CEO to escape accountably through scapegoating to deflect issues in the organization (Boeker, 1992; Abelson, 1999). While both sets of researchers make valid arguments, this study will not focus on the value of the COO position. Instead, this study will examine the effects of the COO with regard to minimizing corporate misconduct. Specifically, this study will examine whether an expectation of the COO achieving the next level in the executive ranks helps bring stability and minimizes corporate misconduct.

The COO role in an organization is a unique one. COOs can take on one of two functions. They can function as co-leaders in organizations. In this capacity, CEOs have officially surrendered some of their leadership duties (Bennett & Miles, 2006), thus creating an environment where the experiences and expertise of COOs complement the CEOs (Bass & Stogdill, 1990). This arrangement allows the CEO to focus on the complexities of managing the organization and prevents being spread too thin, while the COO can focus on the operational decisions that affect the organization (Pfeffer & Salancik, 1978). The second functional role COOs could assume is that of heir apparent. The heir apparent will still have responsibilities for operational decisions of the organization.

The heir apparent is being groomed to succeed the incumbent CEO. In this capacity, the heir apparent receives intense socialization and engages in decision making regarding the corporate strategy for the organization (Bigley & Wiersema, 2002). This allows the heir apparent the ability to influence the strategic orientation of the firm. The heir apparent will also begin to get exposure to the board of directors. The expectation of the heir apparent to succeed the CEO, coupled with his / her exposure to the organizational strategy and knowledge of daily operations should motivate the heir apparent to be extremely vigilant in ensuring that no misconduct is occurring in the organization as this could jeopardize the possibility of succession to the CEO position. Figure 1 below is the model that has been developed to examine the relationship between an heir apparent and corporate misconduct.

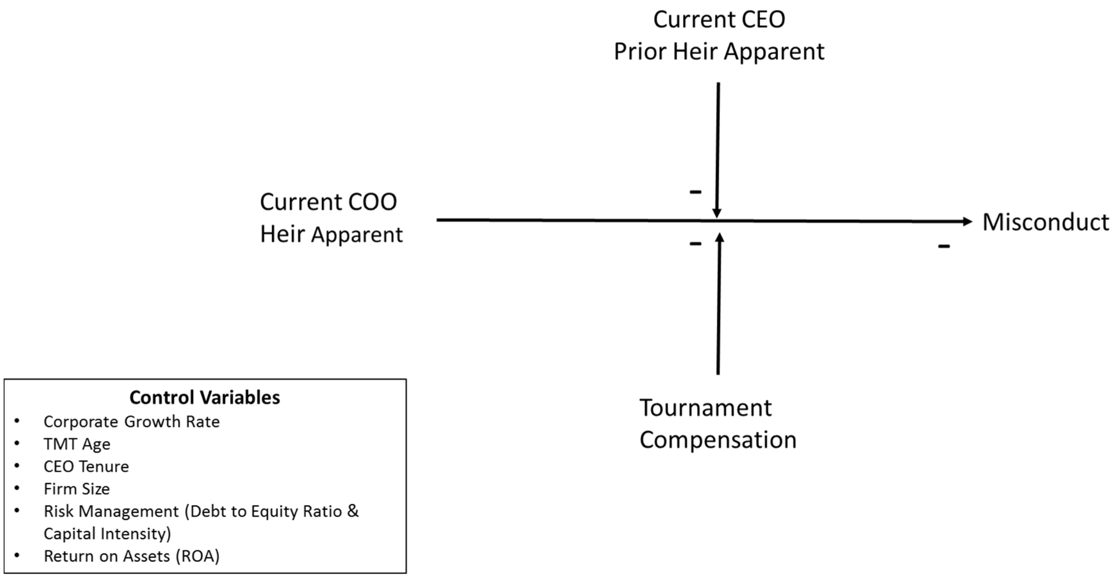

Figure 1

Given that research regarding the influence of the heir apparent role on corporate misconduct is limited, the above model seeks to establish a premise on which to examine the motivation of the heir apparent and the resulting effects on misconduct. The control variables for this model are consistent with prior research involving the heir apparent position (Marcel, 2009; Hambrick & Cannella, 2004; Zhang, 2006; Hill, Kelley, Agle, Hitt, & Hoskisson, 1992; Strahan, 1998; Baucus & Near, 1991; Walsh, 1995). Each of the independent variables analyses a distinct characteristic of the heir apparent role and the corresponding impact the characteristic has on corporate misconduct. Definitions and theories used in the model with be discussed in Chapter II.

Organization of the Dissertation

The structure of this dissertation will be as follows. Chapter II imparts a review of the literature regarding TMTs and misconduct. This literature review also provides theoretical justification for the developed hypotheses. Chapter III discusses the research methods employed to test the hypotheses and provides justification for the sample and control variables. The chapter will conclude with an explanation of the analysis techniques used in this study. The results of the analysis will be reviewed in Chapter IV. Chapter V concludes the dissertation with a discussion of theoretical and practical implications of the findings, limitations of the study, and recommendations for future research.

CHAPTER II

REVIEW OF THE LITERATURE AND HYPOTHESES

The characterization and ramifications of the term “misconduct” can be elusive. In this chapter misconduct and TMT are discussed in an effort to expound the foundation for which the hypotheses in this study are created.

Corporate misconduct, whether through fraud or failing to operate consistently with company values and missions has frequently been in the media as of late. Merriam-Webster Dictionary defines misconduct as intentional wrong doing. While this definition gives a broad spectrum in which to define misconduct, a more targeted definition is needed when examining misconduct that takes place at the corporate level. For that, the Connelly, Ketchen, Gangloff, and Shook (2016, p. 2135) definition for misconduct is employed: “a grievously illegal, unethical, or incompetent act (Greve, Palmer, & Pozner, 2010), for example deceptive accounting, options backdating, employee mistreatment, releasing dangerous products, or environmental offenses.” For this study, I adopt this definition for all references to corporate misconduct.

The consequences of an organization engaging in corporate misconduct can be severe. Misconduct can result in damage to the organization’s brand; dismissal of individuals and financial losses to shareholders, employees, customers, and investors (Harris & Bromiley, 2007). Additionally, misconduct can introduce additional costs to an organization. Misconduct can result in the organization’s incurring fines and legal fees and losing sales (Paine, 1994; Baucus &

Baucus,1997; Haugh, 2017). In addition to legal fees and fines, organizations can incur additional cost via incentives awarded for business objectives that might have been reached as a result of the misconduct.

Other drawbacks of misconduct include the public perception that misconduct is the norm in business. This perception has led the business press to assert that misconduct is the result of "system failure" and that as a result extensive reform (mostly regulatory) is needed to address the issue (Nocera, 2002). The government has responded to organizational misconduct by enacting laws that result in new regulations being introduced. Examples of governmental regulations include environmental laws (which resulted from regulatory laws), Sarbanes Oxley Act (which resulted from reporting laws), and Occupational Safety and Health Rules (which resulted from labor laws) (*Small Business Chronicle*). These regulations cause organizations to enact policies and procedures to avoid the possibility of misconduct occurring at their organizations. Organizations regard these additional measures as costly and burdensome (Harris & Bromiley, 2007).

Antecedents to Misconduct

What leads to misconduct is of interest to researchers and managers. Studies explain a number of possible individual, group, and corporate-level reasons for misconduct but have not studied the organizational context of corporate misconduct. This research focuses on the organizational context and the impact it has on corporate misconduct.

Research indicates that threats and opportunities from the environment can lead to misconduct. When organizations perceive difficulties in reaching performance goals, their leaders may adapt a "through any means necessary" mentality, which may lead them to engage in misconduct (Staw & Szwajkowski, 1975; Finney & Lesieur, 1982; Vaughn, 1999). However, more recent literature indicates that as financial times improve at an organization, individuals are more likely to engage in misconduct (Gino & Pierce, 2009; Mazar, Amir, & Ariely, 2008). Collins, Uhlenbruck, and

Rodriguez (2009) conducted a study with executives in India. The study reveals that executives who have social connections with government officials have a greater probability of engaging in fraudulent behaviors. Staw and Szwajkowski (1975) examine the paucity-bountiful of organization environments as it relates to illegal actions. The study shows as organizations employ greater efforts to acquire resources from the environment to achieve organizational outcomes, the chance the organization will participate in dubious actions that push the legal limits in an effort of achieving the desired outcomes become greater. In that same vein, Vaughan (1999) examines types of misconduct and resulting organizational outcomes. Her study shows a connection between environment, organization, cognition, and choices when misconduct occurs.

Along with research on antecedents of corporate misconduct, studies have been conducted on why organizations engage in misconduct. Several theories have emerged. Bianchi and Mohliver (2016) argue that thriving economic conditions can encourage excessive risk taking. Thriving economic conditions can be defined as periods in business when profits increase, access to credit is bountiful, there is a surplus of capital, and an organization is able to entice investors with ease (Noe & Robello, 1994; Ruckes, 2004; Kindleberger & Aliber, 2005; Akerlof & Shiller, 2009). Results indicate that thriving economic times can cause organizations to become less vigilant in enforcing policies and procedures that have been put in place to minimize misconduct. On the other hand, Harris and Bromiley (2007), extending behavioral theory of the firm, posit that poorly designed top management incentives and firm performance goals can be predictors to corporate misconduct. This stance takes into account a bounded rationality perspective, which implies that when individuals know the incentive for a predetermined outcome, they will behave in such a way as to ensure that the predetermined outcome is achieved. Along the same lines, when assessing why firms engage in corruption, Collins et al. (2009) provide additional insights that executives who engage in corrupt behaviors sometimes justify those behaviors as essential to maintain their business's competitiveness. The Collins et al. (2009) study reinforces the notion that individuals will justify their behaviors while attempting to achieve a predetermined outcome, even if the behaviors result in misconduct.

To put these research finding into context, let's examine three examples of corporate misconduct. All three examples touch on either antecedents or reasons why misconduct occurred. First, let's examine British Petroleum's Deepwater Horizon (Preston, 2010). Under pressure to improve both firm performance and corporate culture, then CEO Tony Hayward replaced disgraced outgoing CEO Lord John Browne. Under Browne's tenure as CEO, profits were prioritized over safety, resulting in a fire at a refinery that killed 15 people (Walsh, 2010). As Hayward assumed the CEO responsibilities, he vowed to change BP's careless corporate culture and focus on safety. Under Hayward's leadership, cost cutting decisions were made. While the company was profitable, the oil spill of April 2010 occurred and 4.9 million barrels of oil escaped into the Gulf of Mexico. As a result of BP engaging in misconduct, CEO Tony Hayward was removed from his position and the organization was dropped from being the second largest oil company to now being the fourth largest, a fall that is the direct result of BP selling off its assets to cover expenses related to the Deepwater Horizon oil spill.

Second, the Wells Fargo banking scandal in 2016 is a good example of how financial incentives for top managers can lead to corporate misconduct. The organization is accused of setting unrealistic sales goals in order for top management to obtain their bonuses. This resulted in employees opening two million fake customer accounts. Wells Fargo, which is deemed the gold standard in the banking industry due to their history of consistently turning a profit and keeping their expenses low (Corkery, Sweet, & Pisani, 2017), developed an aggressive, high-pressure sales culture that resulted in management turning a blind eye to unethical behavior, even though the bank had policies against sales integrity violations (Egan, 2016 b). Top managers became so focused on obtaining sales goals that the organization held daily conference calls at 11:00 a.m., 1:00 p.m., 3:00 p.m., and 5:00 p.m. to encourage branch managers to take "any" action necessary to make their sales goals (Egan, 2016 a). The actions taken by senior leadership officials at Wells Fargo to meet their goals are consistent with the Harris and Bromiley (2007) findings that poorly designed top management incentives and firm performance goals can be predictors of corporate misconduct and that rewards for specific outcomes increase the probability that individual work toward those outcomes.

The third example of corporate misconduct relates to an organization engaging in misconduct to ensure that the organization maintained its competitiveness. In 2015, it was revealed that Volkswagen had been using software that allowed its vehicles to detect when they were being driven under test conditions and report false emission data. An investigation by the U.S. Environmental Protection Agency (EPA) revealed that Volkswagen vehicles were in fact emitting up to 40 times the pollution levels reported by test results (Topham, Clarke, Levette, Scruton, & Fidler, 2015). Quality assurance leadership was held accountable for the misconduct and subsequently dismissed. The quest to develop an in-house solution to their business problem dealing with exhaust from their diesel engines and exceed environmental regulations had led to top management approving the installation of the deceptive software devices. As a result of Volkswagen's involvement in misconduct, the organization was assessed fines and became the subject of multiple class action lawsuits. Six senior executives were indicted for their involvement in the emission scandal (Overly, 2017).

In the aforementioned examples, financial penalties were imposed on the corporations. In each example, the CEO was removed from his duties as well. While CEOs were held accountable, decisions regarding operations usually involve TMTs. Consequently, the TMTs were also held accountable for the misconduct that took place under their watch. Research shows that the information and decision-making process of TMTs is moderated by the TMT members' backgrounds and experiences (see Hambrick & Mason, 1984). Thus, it is important to understand that the effects of incentives, prosperous economic conditions, and confidence that comes with meeting or exceeding performance goals may motivate members of the TMT to make decisions that favor participating in misconduct (Harris & Bromiley, 2007).

However, research regarding the relationship between the organization structure of top management teams and its impact on corporate misconduct is limited. Current streams of literature examine decision-making processes of TMT such as environment and social and emotional cues, but do not necessarily research how the structure of the TMT affects ethical decisions and subsequent organizational outcomes (Haidt, 2001; Treviño, Weaver, & Reynolds, 2006). As a result of this shortfall, little is known about how the context of the top management team structure influences the presence or absence of corporate misconduct. This study addresses this shortfall. First, a review of TMTs will be covered. Second, characteristics of the TMT and their effects on corporate misconduct will be reviewed. Following the discussion of TMT characteristics, perspectives of executives and the resulting organizational outcomes will be discussed. Next, specific TMT roles will be examined with respect to how those roles could influence misconduct. The chapter will conclude with the development of the hypotheses.

TMT Structure

TMT structures and the resulting relationship between TMT members has been examined in numerous research studies. However, before discussing the relationships that exist between TMT members, a definition of TMT must be established. TMT is defined as members of an organization who are at the president level (vice president, senior vice present), officers such as directors, or senior executives [chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), etc.] who have responsibilities for managing one or more areas of the organization (Menz, 2012; Marcel, 2009; Carmen Díaz-Fernández et al., 2014; Canella & Shen, 2001; Hambrick & Canella, 2004). Hambrick's (2007, p. 334) review of upper echelons theory states, "Leadership of a complex organization is a shared activity, and the collective cognitions, capabilities, and interactions of the entire TMT enter into strategic behaviors." Hence, the success of the organization is dependent on the TMT's ability to successfully work together and maintain a quality relationship with the CEO (Menz, 2012).

While each TMT member possesses specific domain knowledge, the combined knowledge of the team should supplement that of the CEO (Angwin, Paroutis, & Mitson, 2009; Hambrick & Canella, 2004; Nath & Mahajan, 2008). Research on the relationship between TMT members and CEOs is limited as it relates to misconduct. Studies that have been conducted thus far focus on building successful relationships between members of TMTs such as chief information officers (CIOs) or chief technology officers (CTOs) and CEOs (Feeny, Edwards, & Simpson, 1992; Gupta, 1991; Johnson &

Lederer, 2005; Medcof, 2008; Watson, 1990). However, the studies do not focus on how this relationship could impact misconduct occurrence with organizations. More research is needed to gain a greater understanding of the relationship between other functional TMT members and CEOs. Understanding this relationship could provide insights on how the actions of TMTs effect the relationship between TMTs and CEOs and resulting organizational outcomes.

Research on TMTs has yielded several characteristics that have been shown to influence the strategic choices of TMTs. These factors include heterogeneity, tenure, education level, and age of the TMT (Hambrick & Mason, 1984) and are the backdrop in which upper echelon theory was formed. These characteristics have been shown to influence the decision-making processes of TMTs (Daboub, Rasheed, Priem, & Gray, 1995). As TMTs decipher information, the complexity of the situation along with risk tolerance will guide their actions (Carpenter, 2002; Finkelstein & Hambrick, 1990; Coffee, 1988). Agency theory can be used to describe the possible conflict of interest that may develop as the TMT must solve business challenges at hand and meet or exceed organizational goals. This potential conflict can cause TMTs (and hence organizations) to engage in corporate misconduct. While several characteristic factors have been mentioned, due to the limited scope of this study, only TMT heterogeneity and tenure and their impact on corporate misconduct will be discussed.

Heterogeneity

When examining the impact of heterogeneity of the structure of TMTs, the demographic traits of groups such as education, tenure at the organization, and functional backgrounds are used as substitutes to measure heterogeneity effects on TMTs (Jackson, 1992; Hambrick, 1994). While research shows that heterogeneous TMTs have a strong penchant for action (Hambrick, Cho, & Chen, 1996), they also exhibit traits of being slower to respond to competitors' strategies than their homogenous counterparts. These findings could explain how the make-up of TMTs impacts corporate misconduct since TMTs that are heterogeneous in nature are associated with being innovative and willing to take risks. The process can provide an environment where TMTs goes too far in the risks they assume and hence engage in corporate misconduct. Nevertheless, one would not expect members of TMTs to engage in misconduct in order to help firms maintain their competitiveness. However, heterogeneous teams have been shown to possess stronger skill sets necessary to navigate chaotic times in an organization (Wiersema & Bantel, 1992). This can be beneficial as TMT members make strategic decisions that will impact performance outcomes, but caution should be taken to ensure that excessive risk taking does not lead to opportunities for TMTs to engage in misconduct in order to reach a specific organizational outcome. While TMT heterogeneity can produce environments that are conducive for executives to engage in misconduct due to their propensity to take more aggressive risk, other characteristics have been shown to impact TMTs actions that could lead to misconduct. Two such characteristics, TMT size and tenure, will be discussed in the next two sections.

Tenure

The research findings on the effects of TMT tenure on organizational misconduct is not conclusive. Evidence regarding TMTs with shorter tenures in organizations and their probability to participate in misconduct versus their longer tenured counterparts is mostly anecdotal (Williams, Fadil, & Armstrong, 2005). Clinard (1983) conducted a study and concludes that less tenured TMT members, in an effort to grow their careers quickly, are often more aggressive in the risk they are willing to assume. This willingness to assume more risk could result in TMT members engaging in misconduct to reach a specific organizational outcome. Less-tenured TMT members may also engage in misconduct as they attempt to achieve audacious goals set by more seasoned members of TMTs (Clinard & Yeager, 1980). Daboub et al. (1995) suggest that TMT members with long tenures may engage in misconduct through acquiescence measures. This was the case in the Wells Fargo customer account scandal, where the average tenure of TMT members was 9.6 years (McGegor, 2016). The TMT was aware that the organization was experiencing record performance for a firm of that size. No one questioned what actions were being taken to achieve the performance goals. As a result, a culture emerged to achieve organizational outcomes by any means necessary. This led to the organization engaging in the practice of creating fraudulent customer accounts to achieve organizational goals.

The actions of the TMT should have been monitored more closely, given that role of the executive can influence organizational outcomes.

Members of the TMT

Prior research regarding TMTs focuses mostly on the team as a whole. However, research that focuses on individuals within TMT ranks is also needed so that an understanding of individual TMT members' actions and subsequent organizational outcomes can be developed. This study addresses that need by first examining four members of TMTs: chief marketing officer (CMO), chief technology officer (CTO), chief information officer (CIO), and chief operating officer (COO). These four members of TMTs were selected because past research has studied these leadership roles within the organizational hierarchy (Aaker, 2008; Nath & Mahajah, 2008; Adler & Ferdows, 1990; Applegate & Elam, 1992; Smaltz, Sambamurthy, & Agarwal, 2006; Hambrick & Cannella, 2004; Bennett & Miles, 2006). The role of the CFO has been purposely omitted due to the fact that research regarding misconduct and CFOs focuses on the financial outcomes as a result of misconduct, and that is not the focus of this study. I then narrow my focus to examining a special case of a TMT member – the heir apparent. Lastly, this study explores how the motives of the heir apparent impacts organizational outcomes.

Chief Marketing Officers. Within the TMT structure, the position that is referred to as the "voice of the customers" is the CMO (McGovern, Quelch, & Crawford, 2004). While CMOs lobby for the customers, research shows that organizations who employ a CMO perform no better or worse that organizations who elect not to have a CMO (Nath & Mahajan, 2008). Given that the empirical evidence shows no impact on firm performance, one may ask, what is the significance of a CMO as a member of the TMT? The CMO assumes responsibility for "overseeing the marketing business unit, managing global marketing resources, developing and supporting the marketing strategies of various business units within the organization and directing global marketing efforts, including branding, product marketing and customer relationship marketing (Nath & Mahajan, 2008, p. 67). To say it another way, CMOs spend their time consulting with top management regarding marketing challenges and facilitating marketing activities designed to develop the divisional-level talent (Hopkins & Bailey, 1984). The probability of an organization employing a CMO is greater if the organization engages in high degrees of differentiation and innovation (Nath & Mahajan, 2008).

Chief Technology Officer. Within the TMT, there are two roles that on the surface seem similar: CTO and CIO. A closer look at each position will help differentiate them, as well as explain the significance of each role in the TMT. First, let's examine the role of the CTO. CTOs have a wide range of duties that spans across products, processes, and information technologies (Alder & Ferdows, 1990). Hence, CTOs are responsible for ensuring collaboration between business units and researchers to advance technologic efforts for the organization (Jonash, 1996; Tobias, 2000). Stated in layman's terms, CTOs are responsible for, "…avoiding the duplication of technological efforts between business units and facilitating technology transfer from one to the other" (Cetindamar & Pala, 2011, p. 1032). The CTO role is also tasked with advising the organization on long-term technology plans, championing new technology development plans (Kor & Mahoney, 2005), and cultivating relationships with external entities such as regulatory agencies and universities (Herstatt, Tietze, Nagahira, & Probert, 2007; Smith, 2003). CTOs often collaborate with CMOs in order to leverage communication to the media in an effort to shape the technology image for the organization (Smith, 2003).

Chief Information Officers. The CIO is defined as "… the highest-ranking information system executive who typically exhibits managerial roles requiring effective communication with top management, a broad corporate perspective in managing information resources, influence on organizational strategy, responsibility for the planning of information technology (IT) to cope with a firm's competitive environment" (Grover, Jeong, Kettinger, & Lee, 1993, p. 108). The CIO position is a unique one within the TMT structure in that most CIOs do not report directly to the CEO (Rothfeder & Driscoll, 1990), hence, making the influence of the CIO different from others members of the TMT. As such, CIOs are more managerially oriented versus technically oriented (Earl, 1989), and their contributions to the organization are realized during the development of the overall organizational strategy (Applegate & Elam, 1992). The CIO role has been shown to have a positive impact on organizational outcomes as it relates to information technology decisions (Smaltz et al., 2006). The CIO's presence also greatly influences organizational outcomes in the wake of security breaches (Zafar, Ko, & Osei-Bryson, 2016).

Chief Operating Officers. Within the TMT structure, COOs have responsibility for overseeing and encouraging employees, dedicating resources to solve business challenges, and sharing and implementing the companies' strategic strategies (Hambrick & Cannella, 2004). The way a business chooses to define and organize their top leadership roles can affect business outcomes (Jensen & Zajac, 2004). Organizations will structure their TMTs based on the standards for their industry. Members of TMTs are charged with the responsibility of running specific business units within the organization (Menz, 2012). To be successful in their organizations, TMT members are aware that they must demonstrate strategic leadership (Applegate & Elam, 1992; Beckman & Burton, 2011). The challenges associated with demonstrating strategic leadership stem from the fact that TMT members give their attention to the top problems impacting their business areas (Simon & Barnard, 1947). As a result of this selective focusing, TMT members are at risk of not being able to effectively monitor their business units, thus inadvertently creating an environment where misconduct not only could occur but could go undetected for some time. However, there is a position in the TMT that is uniquely positioned to deal with the organizational challenges of minimizing misconduct. This position is that of the COO.

The emergence of the COO role in organizations occurred in the 1970s (Barnard, 1968; Mintzberg, 1973; Drucker, 1954). Researchers have conflicting views as to the usefulness of the COO role (Heenan & Bennis, 1999; Abelson, 1999). Research by Charan and Colvin (1999) posits that CEO who are good at their jobs and have effective leadership skills do not need COOs between them and the organization. Marcel (2009) argues that the existence of the COO role could influence TMT-level information processing, which in turn could positively affect firm performance given certain environmental conditions. COOs can exercise strategic leadership and leverage their operational knowledge to influence TMT communication and decision making to ensure their organizations reach their performance outcomes (Menz, 2012; March & Simon, 1958). The presence of a COO indicates that the CEO has delegated some of his / her leadership responsibilities (Bennett & Miles, 2006). The presence of a COO could also stem from a combination of the following conditions where the CEO has: "(1) Extraordinary task demands arising from industry dynamism, (2) Extraordinary demands arising from organizations and/or, (3) Repertoires which limit their capabilities to oversee internal operational affairs" (Hambrick & Cannella, 2004, p. 960). COOs are responsible for examining and driving day-to-day operational performance outcomes that have a positive impact on firm performance (Hambrick & Canella, 2004) while the CEO remains eternally focused on strategies for the organization. There are several benefits to having an official COO role. They include having a dedicated person to ensure that operational changes are implemented, training and developing the next CEO of the organization to ensure a smooth transition of power when the current CEO exits, and the ability to leverage the experiences of the COO to supersede the CEO's normal limitations due to bounded rationality (Bass & Stogdill, 1990). These benefits in essence allow CEOs the much-needed time to develop strategies to respond to external factors organizations face.

Caution should be given to having a COO in the leadership hierarchy. This CEO/COO structure is not without its share of challenges. Having a COO in an organization adds additional layers of bureaucracy, diminishes the efficacy of the CEO, and adds additional cost to the shareholders (Marcell, 2009; Judge & Miller, 1991). The cost associated with the extra executive position is typically great (Murray, 2000). While it is recognized that not all businesses have the CEO/COO leadership structure, this structure has been shown to affect organizational outcomes. Hambrick and Cannella, (2004) conducted a study examining CEOs who have COOs and found evidence that the CEO/COO leadership structure produces lower performance outcomes than organizations without COOs.

The COO of an organization can assume various responsibilities. They could operate in the role of a coleader of the organization, where they share responsibilities running the business. In this capacity, the COO assumes some decision-making authority. COOs could operate in the more traditional roll where they are responsible for overseeing the day-to-day operations of the organization (Bennett & Miles, 2006; Bass & Stogdill, 1990). These duties include monitoring, overseeing, and communication with various business units to execute business strategies (Hambrick & Canella, 2004). In either role, COOs must be able to efficiently utilize available resources to resolve any challenges that may prevent the organization from reaching desired outcomes. The COO's attention should be focused on salient operational decisions and those situations where operational misconduct may occur, utilizing organizational resources to implement and monitor strategies that ensure "organizational rules" are being adhered to, thus minimizing opportunities for misconduct to occur.

In addition to the traditional COO. There is a special type of COO. This special type of COO is called an "heir apparent." The heir apparent is also in charge of operational aspects like the COO and should also focus on minimizing misconduct; however, the heir apparent has an expectancy of achieving the next goal – the CEO position. This should motivate the heir apparent to be hyper-vigilant in the focus of minimizing misconduct in an effort to remove any obstacles that may prevent them from achieving the next step in their career paths.

Chief Operating Officer Special Case - Heir Apparent

The presence of a COO in organizations is viewed as a positive thing in the succession literature, because the presence of a COO assists an organization in providing order and structure during periods of transition (Behn, Riley, & Yang, 2005). Individuals who have the title of COO are regarded as being an heir apparent (Vancil, 1987). Research into the value of an heir apparent draws conclusions by examining the events of the succession occurring and the resulting firm performance (Johnson, Magee, Nagarajan, & Newman, 1985; Worrell, Davidson, Chandy, & Garrison, 1986; Etebari, Horrigan, & Lanwehr, 1987). The findings from this research provides insights on how and when organizations have CEO succession plans; the smooth transition of power reduces the potential negative impacts on firm performance.

Benefits surrounding the usefulness of succession plans has been a topic of research in various streams of literature from economics and finance (Hermalin & Weisbach, 1988; Parrino & Harris, 1999), to organization management (Reingahum, 1985; Behn et al., 2005), and strategic management literature (Cannella & Lubatkin, 1993; Hambrick & Cannella, 2004), as well as others. The research that has been conducted tends to focus on the events that take place during the succession process, the resulting performance outcomes as a result of the succession process, or the selection of an insider or outsider successor (Cannella & Lubatkin, 1993; Virany, Tushman, & Romanelli, 1992; Wagner, Pfeffer, O'Reilly, 1984; Finkelstein, Hambrick, & Cannella, 2009). These streams of research provide useful insights into organizational structure and how organizations handle the transition of power at the executive level. However, this body of research does not investigate the relationship between the motives of the heir apparent and the effects it has on succession. While succession is not the purpose of this study per se, this study will examine how the motivation and subsequent actions of heirs apparent affects heirs' realization of obtaining the next role, which in itself is a succession event.

Theoretical Framing

History of succession influences how people react and what is going to happen in the future. The way an organization responds to challenges is a reflection of the current environment. Insights into how an organization may respond to challenges can be garnered from past decisions the organization has made (Ocasio, 1994). In the case of heirs apparent, heirs can look upon the organization history of succession as a way of gaging their chances of becoming CEO. Succession looks at the long-term planning regarding leadership of the organization. The history of such succession plans can provide a context upon which heirs apparent can base their expectations of becoming CEOs (Expectancy – Value Theory; Eccles, Adler, Futterman, Goff, Kaczala, Meece & Midgley, 1983). Literature shows that there is a power struggle for the CEO position; thus, there is added motivation for an heir apparent to minimize misconduct and give added fervor to that contest from alternative TMT members. Since heirs apparent desire to become CEOs, they should be motivated to ensure there are no blemishes on their records that should compromise the chances of becoming CEOs given that the succession history of organizations that suggests heirs apparent are promoted to the CEO position. Therefore, given the history of COO succession to CEO in the organization, the heir apparent has an expectation of assuming the CEO role.

Along with the expectancy model of motivation, there is an economic perspective that influences heirs' apparent motivation. That perspective is tournament theory. Tournament theory is defined as a situation where the difference in pay is based on rank order instead of individual performance (Lazear & Rosen, 1981). It is thought that greater differences in pay influence the amount of effort an individual puts forth. This concept relates to heirs apparent because the difference in pay between the heir apparent role and the CEO role is one of two factors that will motivate heirs apparent to be attentive to organizational outcomes in an effort to diminish the possibility of misconduct occurring. As such, the succession history of the organization along with tournament theory can motivate heirs apparent as well as creating a level of expectancy that heirs apparent will assume CEO roles if they are successful in minimizing misconduct during their tenure.

Hypothesis Development

Research to understand what motivates heirs apparent to be successful during their tenure and while waiting to become CEO is limited. Heirs apparent are expected to leverage their experiences to drive change in the organization, but an in-depth understanding of what motivates heirs apparent is needed. Benefits from understanding heir apparent roles will advance TMT literature as it can provide another lens into what motivates heirs apparent to perform well and provide insights to the following question: Does the expectation of the heir apparent to become CEO create a motivational aspect in which the heir apparent minimizes any operational challenges that would be evident in misconduct?

Since the heir apparent is a special case of the COO position, the heir apparent assumes responsibility to focus on making operational decisions that result in the organization reaching its intended performance outcomes. If heirs apparent are successful in achieving the desired performance outcomes, they then develop an expectancy that their successful performance will result in promotion to CEO. Expectancy theory states, "expectancy refers to the perceived likelihood that an action will lead to a particular outcome" (Schmidt, Beck, & Gillespie, 2013, p.318). It can be expected that the heir apparent will be hyper focused on operational challenges in an attempt to diminish any situation within the organization that could lead to misconduct. After all, any misconduct that occurs during heirs' tenure will be attributed to leadership failure on the part of the heir apparent. Any such failure could cast a shadow of doubt on the heir's ability to successfully manage an organization. This stigma could have devastating effects on their future careers.

Research on stigma finds that it will be difficult for executives to distance themselves from successes and/or failures of the organization they manage (Fama, 1980). Thus, if the organizations of heirs apparent engage in misconduct, the consequences of the misconduct taking place under the heirs' watch could create a stigma about the heirs, thus negatively affecting the likelihood of their assuming the role of CEO. It is understood that the stigma associated with misconduct could have negative repercussions for the entire TMT. However, the focus of this study is heirs apparent. Therefore, the potential negative stigma of misconduct as it relates to heirs apparent is the only issue of concern.

Along with minimizing misconduct within the organization, heirs apparent must also ensure that the organization is making strides toward achieving performance goals set for the organization. Research shows that the presence of an heir apparent has a positive correlation with firm performance when evaluating return on assets (ROA) and market-to-book ratio (Marcel, 2009). Successful firm performance can lead to performance incentives. These incentives encourage management to continue to meet or exceed performance goals. Positive firm performance can benefit heirs apparent beyond just receiving incentives. Heir apparent can solidify their chances of becoming CEOs if the organization continues to meet or exceed performance expectations. In order for the organization to do so, misconduct that could result in regulatory fines and damage to the organizations' image and stakeholders should be minimized (Harris & Bromiley, 2007).

Ensuring that the organization meets or exceeds performance outcomes while minimizing the potential of misconduct occurring can be a taxing task for heirs apparent and CEOs. Heirs apparent willingly take on this challenge because they understand that the prize / reward for successfully achieving the goal could result in climbing the corporate ladder. The drive that motivates heirs can best be attributed to expectancy theory, which suggests that individuals will act a certain way based on the goals they are trying to achieve. Hence H1 is as follows.

H1: The presence of an heir apparent is negatively related to corporate misconduct.

Along with misconduct, there are other factors that could influence whether an heir apparent expects to succeed to the incumbent CEO. Such factors include whether the current CEO was an heir apparent, and whether while heirs apparent they demonstrated positive performance that resulted in their promotion to the role of CEO. Bennett and Miles (2006) suggest that the main reason the heir apparent role exists is to train an organization's CEO-elect. An example that supports Bennett and Miles' suggestion is Tim Cook, CEO of Apple, Inc. Cook, along with Steve Jobs (former CEO of Apple, Inc.), is credited with developing strategies that improved the overall performance of Apple Inc. (Ferracon, 2011). As a result of the positive organizational performance, Cook was promoted to the role of CEO upon the resignation of Steve Jobs. Another example is Denise Morrison, CEO of Campbell Soup Company. Morrison is credited with launching 50 new products aimed at expanding Campbell Soups Company's appeal to diverse consumers (mainly millennials). Morrison's success resulted in her being promoted to CEO of Campbell Soup Company.

As stated earlier, the heir apparent has an expectancy to become CEO. This expectancy creates the motivation for the heir apparent to be laser-focused on operations and make decisions that will result in the successful attainment of organizational goals and the minimization of misconduct. Along with the aforementioned motives driving the expectancy of the heir to obtain the CEO position is the precedent that can be inferred from the prior heir apparent being promoted to CEO. The succession of the former heir apparent to CEO further bolsters the current heir's expectancy to be promoted to CEO.

Another factor that may influence the heir's motivation in the pursuit of the CEO role is whether the incumbent CEO was an heir apparent. If the incumbent CEO is a former heir apparent, this creates an environment where the current heir apparent can expect to succeed the incumbent CEO barring any unforeseen circumstances. By the former heir apparent being promoted to CEO, the organization sets a precedent that the heir apparent assumes the CEO role in the succession plan. This precedent further motivates heirs to be hyper focused on ensuring that no misconduct occurs during their tenure. Therefore, I expect the following.

> H2: The relationship between the presence of an heir apparent and corporate misconduct is moderated by prior promotion of an heir apparent such that the negative effect is stronger if the current CEO was a prior heir apparent.

Along with the desire to become CEO, heirs apparent are aware of the monetary changes that come with succession to the CEO position. Henderson & Fredrickson, (2001) present a behavior perspective on the pay difference that exists between executive levels. They argue that differences in pay across positions in an organization are essential to an organization social-psychological and sociopolitical context. The pay differences influence whether individuals indulge their own motives or whether they contribute to the larger goals of the organization. Research regarding the distribution of pay among TMT members and organization profitability shows that the gap in pay among TMT members has a positive correlation with organization profitability such that greater gaps in pay create greater motivation for TMT members to desire the next level in the organization. It stands to reason then an heir apparent who is delivering positive organizational outcomes will be motivated to pursue the next level in the organization, especially when that next level has a significant pay increase.

CEO and heir apparent roles are similar enough that accountability issues arise (Abelson, 1999). Tournament theory helps resolve this issue by asserting that as it becomes increasing difficult to monitor roles, the large gap in pay reduces the need for monitoring; hence, principle-agent interest will better align with organizational goals (Henderson & Fredrickson, 2001). With that being said, if the heir apparent is successful at minimizing corporate misconduct and maintains or exceeds organizational goals, it stands to reason they will have some form of expectancy for the succession activities to take place at the end of the incumbent CEO reign.

Tournament theory also shows support for the assertion that monetary compensation will impact the actions of individuals involved in the tournament. A study of PGA golfers conducted by Ehrenberg and Bognanno (1990) demonstrates that players' performance was positively correlated with monetary prizes for the golf tournament. The study also finds that the amount of effort put forth by the golfers is moderated by the way the monies from the tournament are divvied out. This logic is useful when examining the amount of effort, the heir apparent is willing to exert while striving for the CEO role in that, based on the heirs' value of the prize (CEO promotion) and the expectation of obtaining the prize, the heirs will exert maximum effort to ensure misconduct is abated. The prize, which in this case is an increase in pay, will incentivize heirs to concentrate on ensuring that operational goals are met while simultaneously working to curtail misconduct. Those actions are influenced by how the individual perceives the connection between the required performance and the reward (Vroom & Deci, 1989). Hence, Hypothesis 3 is as follows.

> H3: The relationship between the presence of an heir apparent and corporate misconduct is moderated by the gap in pay between the CEO and the heir apparent such that the negative effect is stronger as the compensation difference increases.

Figure 2 shows the hypotheses relationships.

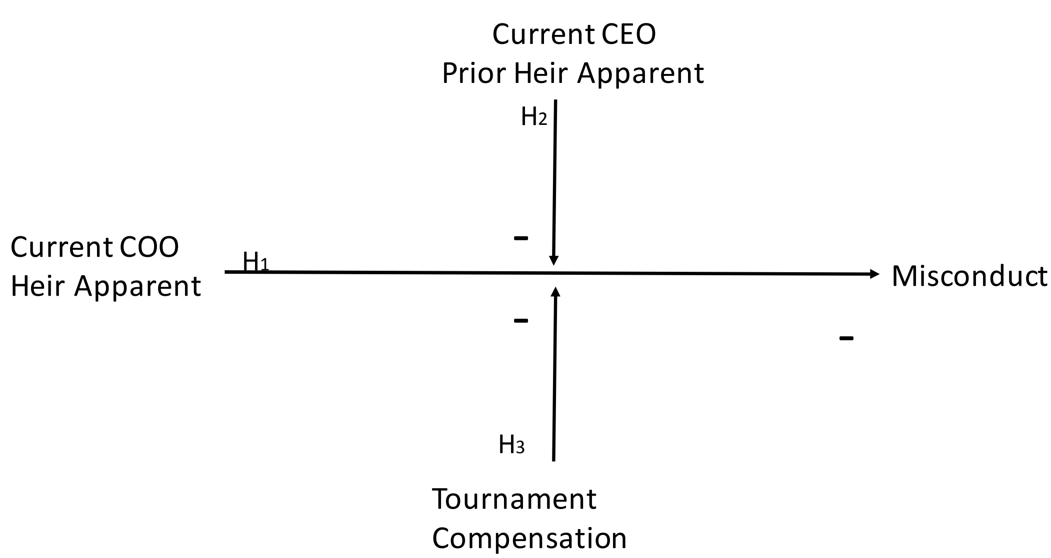

Figure 2

CHAPTER III

METHODOLOGY

This chapter specifies the methodology used to test the hypotheses that were developed in Chapter II. This chapter also gives specific details on the method used to select the sample and gather the data as well as providing a description of the variables and discussing the analytical methodology used.

Sample and Data Collection

This section explains the methods used to select the population and describes how the data will be collected.

Data

Initially the population for this study consisted of 153 publicly traded electrical services companies (Standard Industrial Classification [SIC] code 4911) listed in COMPUSTAT in 2010. However, adjustments were made to the sample because there were only 30 such organizations. The adjustments are covered in detail in Chapter IV. Data was collected between the years 2010 and 2015. Electrical services companies were selected for this study because the utilities and power industry is operations driven and highly regulated, and data regarding misconduct violations is available. Misconduct violation data was collected from Good Jobs First violation tracker. Good Jobs First is a national data set that tracks corporate misconduct violations. The organization supports government and corporate responsibility by offering information on organizations that receive state and local subsidies.

Good Job Tracker focuses on being a strategic resource for communities and organizations by analyzing and researching companies and industries. Hence, the site tracks various misconduct violations in areas such as environment, health, safety, price-fixing, as well as others that are opened by 39 federal regulatory agencies as well as the Justice Department (http://www. goodjobsfirst.org/ violation-tracker). As with prior research (Marcel, 2009; Zhang, 2006; Cannella & Shen, 2001), performance and organizational-level variables were collected. Compustat was used to collect the following organizational land performance level variables: firm size, CapEx (variable used to measure property, plant, & equipment), shareholder total equity, current total assets, long-term debt, sales, and ROA. Executive-level organizational variables extracted from Execucomp include: CEO age, CEO tenure, COO age, and total compensation (for both CEO & COO).

Measures

This section identifies the dependent, independent, and control variables used in this dissertation.

Dependent Variable

As stated earlier in this study, organizational misconduct is defined as "… a grievously illegal, unethical, or incompetent act (Greve et al., 2010), for example, deceptive accounting, options backdating, employee mistreatment, releasing dangerous products, or environmental offenses (e.g., Govindaraj, Jaggi, & Lin, 2004). Based on this definition, this study will use environmental misconduct as the dependent variable. Environmental misconduct will be measured three different ways: (1) misconduct occurrence, (2) misconduct count, and (3) the fines assessed for misconduct. By measuring the dependent variable three different ways, the overall impact of an organization engaging in misconduct can be assessed. The data for the environmental misconduct offenses will be collected from Good Jobs First violation tracker.

Independent Variables.

Identifying an heir apparent in an organization can be a difficult task. Organizations do not make their succession plans public. To counteract this challenge, the Cannella and Shen (2001) definition of an heir apparent will be used for this study: "… any officer who was the only person in a firm holding the title of president or of COO or both and who is at least five years younger than the incumbent CEO." The officer's title and age information was collected via EXECUCOMP, Mergent Online, and other publicly available sources. In instances where age information was not available, the data was collected via Google search. The presence of an heir apparent will be coded as a categorical variable with 1 representing the presence of an heir apparent and 0 otherwise.

As argued, prior succession events may shape the expectancy of achieving the CEO position for executives currently holding the position of heir apparent. Therefore, a variable "Prior Heir Apparent" is introduced. The presence of this variable is needed to test Hypothesis 2, which states, "The relationship between the presence of a prior heir apparent and corporate misconduct is moderated by the promotion of an heir apparent such that the negative effect is stronger if the current CEO is an insider." I measure Prior Heir Apparent as a dichotomous variable indicating a 1 if the incumbent CEO was also promoted from an heir apparent position and a 0 otherwise.

Tournament pay will be measured using the gap in total pay between the CEO and the heir apparent. Total pay is defined as cash, long-term, and total compensation (Henderson & Fredrickson, 2001). Via proxy statements, publicly traded organizations are required to divulge the total compensation of their CEOs along with those of the next four highest paid executives. Compensation for other members of management is rarely released. As such, the top management team is defined as the CEO and the next highest paid executives at an organization (Main, O'Reilly, & Wade, 1993). Therefore, the CEO pay gap will be measured using the natural logarithm of the CEO total pay minus the total pay of the heir apparent divided by the CEO total pay listed on the organization's proxy statement (Henderson & Fredrickson, 2001). In an effort to diminish heteroscedasticity, the natural log will be used in the regression model.

Control Variables

While any number of factors could affect organizational misconduct, this study will control for the following factors: firm performance and industry. Studies have been conducted that address firm performance with regard to the presence of an heir apparent (Marcel, 2009; Charan & Colvin, 1999;

Barnett & Davis, 2008; Daily & Johnson, 1997). Keeping with past researchers (Hambrick & Cannella, 2004; Henderson & Fredrickson, 2001; Zhang, 2006) ROA will be used to measure firm performance. One industry was used in this study as different industries might define operational responsibilities differently, thus making it difficult to draw conclusions between the presence of an heir apparent and the impact they have on corporate misconduct.

In an effort to reduce potentially bias in the results, the following variables will also be controlled for in this study.

Firm Size. On the surface, it may appear that larger firms engage in more misconduct when in fact larger organizations are subject to more scrutiny, resulting in more frequent audits by regulatory agencies (Asch & Seneca, 1975; Hill et al., 1992) and giving the illusion that larger organizations engage in misconduct at greater rates. Therefore, organizational size will be controlled for in this study by taking the natural log of the number of employees (Henderson, Miller, & Hambrick, 2006).

Risk Management. Organizations inherently take on risk as a way to grow their businesses and stay competitive in their industries. To avoid prematurely drawing an assumption that organizational risk management predicts an participation in misconduct, debt-to-equity ratio and capital intensity will be controlled for. Debt-to-equity ratio will be measured by dividing long-term debt by total assets (McTier & Wald, 2011). Capital intensity will be measured by dividing gross property, plant, and equipment by total assets (Strahan, 1998).

Variables that could influence misconduct also need to be controlled for. These variables include corporate growth rate, CEO age, and CEO tenure. Industry growth rate could influence the probability of an organization engaging in misconduct. As stated earlier, organizations experiencing prosperous times have more opportunities to take part in misconduct activities (Bianchi & Mohliver, 2016). Therefore, this study will control from industry growth at the four-digit SIC level (Baucus & Near, 1991).

The tenure of the CEO position is finite. Henderson and colleagues (2006) argue that as the tenure of the CEO grows, the CEO becomes less effective. The CEO can suffer the effects of growing out of touch with external environments, which could impact the CEO's abilities (Walsh, 1995) and influence turnover. Therefore, CEO turnover will be controlled with age and will be measured in years.

Analysis

The dependent variable for this study will be measured three ways. First, as a dummy variable that will account for whether a violation has occurred (1= violation reported, 0= all else). Second, the dependent variable will be measured as a count variable (measuring the number of violations that occur for each organization). Lastly, the dependent variable will be measured as the value of the fines assessed for the violations. Because this data collection will result in a panel data set with a dichotomous variable as the outcome of interest, the analysis will be conducted with a fixed effect logistic regression model. Multicollinearity will be tested for using the variance inflation factor.

The variance inflation factor (VIF) is a commonly used statistical tool that measures the amount of multicollinearity between the independent variables (O'Brien, 2007). VIF values between 0 and 4 are used to assess the presence of multicollinearity (O'Brien, 2007). As VIF values approach 4, issues of excessive multicollinearity must be addressed. The issue of multicollinearity along with the results of the study will be discussed in Chapter 4.

CHAPTER IV

ANALYSIS AND RESULTS

This chapter entails a review of the statistical analysis employed to test the research question and the proposed hypotheses in this dissertation. This section will begin by providing a summary of how the sample for this study was collected. Next, a review of the analysis performed will be discussed. The chapter will conclude with a discussion on the hypothesized relationships that were introduced in Chapter II.

Data Collection

The sample for this study was comprised of publicly traded electrical services companies (SIC Code 4911) that were listed in Compustat in 2010. This classification offered 153 organizations for this study. Executive compensation for the 153 organizations was gathered using Execucomp. Execucomp is a database that houses total compensation information on the highest paid executives in organizations. Therefore, any organization that did not have compensation information listed in Execucomp was excluded from the study. Of the 153 organizations listed in Compustat, executive compensation could be found for only 30 firms. Therefore, the SIC Codes used was expanded to include: oil, gas, utilities, and power generation companies (SIC Codes 1311, 1381, 1382, 1389, 4922, 4923, 4924, and 4931) due to the fact that these industries are similar in that all of the listed SIC codes are related to energy. SIC classification 13 lists oil and gas extraction organizations and SIC classification 49 lists electric, gas, and sanitary services organizations. The resulting sample size was 1,063 organizations. Executive compensation data was available for 156 companies. Thus $N = 156$ companies. Data for the control variables was collected using information found in both Execucomp and Compustat. A Google/LinkedIn search was completed for executive's biographies to fill in any information that was missing from Execucomp and Compustat.

Analysis

Once the sample was defined and the data was collected, a statistical power test was conducted to ensure that the sample size was sufficient for the study. Next, the data was tested for multicollinearity. Upon successfully determining an appropriate minimal sample size and testing for multicollinearity, a fixed effect logistic regression analysis was conducted to test the hypotheses. The results of the tests are discussed below.

Statistical Power

To ensure this study would be able to accurately identify an interaction between variables, given that there is an interaction to identify, the statistical power was calculated using STATA to confirm that the sample size (N) was sufficient. Based on the results of Table 1, the sample size of $N = 156$ is sufficient for this study at the $\alpha = .05$ level.

Table 1. Statistical Power Calculation Results

Alpha	Power	N	N1	N2	Delta	H Ratio
0.05	0.6468	50	25	25	0.5	0.
0.05	0.9037	100	50	50	0.5	0.5
0.05	0.9766	148	74	74	0.5	0.5
0.05	0.9955	200	100	100	0.5	0.5
0.05	0.9992	250	125	125	0.5	0.5
0.05	1.0000	1,000	500	500	0.5	0.5

Multicollinearity

Multicollinearity is described as an instance in which two or more variables are highly correlated in a regression model. As a result of this variables being highly correlated, either variable can be used when interpreting the effects of the variables on the model. Such conditions adversely affect the accuracy of the analysis of each individual variable's effect on the model. To test for multicollinearity, a widely accepted statistical measure of VIF was used. Given that the VIF for my models are below the accepted value of 4 (see Table 2), the issue of multicollinearity does not need to be resolved in this model.

Table 2. VIF Analysis Results

Variable	VIF	1/VIF
Capital Intensity	1.37	0.729871
Firm Size	1.34	0.748199
Current COO Heir Apparent	1.26	0.791586
CEO Tenure	1.25	0.799749
Year	1.22	0.822856
Tournament Compensation	1.17	0.856123
ROA	1.11	0.903547
CEO Age	1.09	0.918669
Debit to Equity Ratio	1.04	0.962958
Current CEO Heir Apparent	1.03	0.973703
Mean VIF	1.19	

Descriptive Statistics Results

The descriptive statistics used to test the relationships of the hypotheses are: misconduct count, misconduct penalty amount, misconduct occurrence. The descriptive statistics yielded some noteworthy findings. The average penalty amount was $5,860,711, with the maximum fined being $5,150,000,000. The mean of the firms that had misconduct was $168,000,000. The large mean stems from the fact that there is no set fee for any particular violation. The EPA assesses fines for misconduct on a case-by-case basis. Of greater interest are the findings that pay gap seems to be the most associated with misconduct in that it is correlated with both misconduct and number of occurrences at .184 and .177, respectively. These findings are in line with prior research on tournament pay and subsequent behavior. However, given that some level of correlation between the variables is expected, future research could prove fruitful in providing additional insights into the magnitude of how tournament impacts corporate behavior/misconduct.

Table 3. Descriptive Statistics and Correlations

Variables		Mean	S.D.	1	2	3	4	5	6	7	8
1.	Misconduct Count	0.097	0.488								
2.	Misconduct Penalty Amount	5,860,711.000	168,000,000.000	0.069							
3.	Misconduct Occurrence	0.055	0.227	0.791	-0.001						
4.	Heir Apparent Present	0.165	0.371	0.035	-0.018	0.044					
5.	CEO Age	55.699	6.047	0.098	0.014	0.110	0.153				
6.	CEO Tenure	7.937	5.666	0.020	-0.006	0.008	0.222	0.191			
7.	Pay Gap	6.915	1.408	0.177	0.037	0.184	0.081	0.039	-0.095		
8.	ROA	-0.090	2.066	0.006	-0.027	0.018	-0.026	-0.009	-0.021	0.214	
9.	Current CEO Heir Apparent	0.446	0.497	-0.029	0.038	-0.068	0.033	0.036	0.007	0.014	-0.010

Results of Hypotheses Testing

The hypotheses were tested with three different measures of the dependent variables (DVs): misconduct occurrence, number of misconduct violations, and size of the fines assessed for the misconduct. The results follow.

DV – Misconduct Occurrence

My first analysis focused on whether there were any occurrences of misconduct within a year. Thus, the dependent variable was a dummy variable indicating 1 if at least one observation of misconduct occurred and a zero otherwise. A logit (Table 4) regression analysis was preformed to test the hypothesis. Model 2 tested Hypothesis 1, which states, "The presence of an heir apparent is negatively related to corporate misconduct." Results suggest that the results are in the specified direction but do not reach significance.

Model 3 tested Hypothesis 2, which states, "The relationship between the presence of an heir apparent and corporate misconduct is moderated by prior promotion of a current COO heir apparent such that the negative effect is stronger if the current CEO heir apparent was a prior heir apparent." The results are in the specified direction but do not reach significance. Model 4 tested Hypothesis 3, which states, "The relationship between the presence of a current COO heir apparent and corporate misconduct is moderated by the gap in pay between the current CEO heir apparent and the current COO heir apparent such that the negative effect is stronger as the compensation difference increases." The results suggest that the results are in the opposite direction of the hypothesis but do not reach significance.

DV – Misconduct Count

The next analysis (Table 5) focused on reported instances of misconduct within a year. Thus, the dependent variable was the count of the number of misconduct incidents reported. A Poisson regression analysis was performed to test the hypotheses. Model 2 tested Hypothesis 1. Results suggest that the results are in the specified direction but do not reach significance. Model 3 tested Hypothesis 2. The results suggest that the results are in the opposite direction but do not reach significance. Model 4 tested Hypothesis 3. The results suggest that the results are in the specified direction of the hypothesis but do not reach significance.

DV – Fines Assessed for Misconduct

The last analysis (Table 6) focused on the fines that were assessed for occurrences of misconduct within one year. Thus, the dependent variable was the monetary amount assessed for misconduct occurrences. A Tobit regression analysis was performed to test the hypotheses. Model 2 tested Hypothesis 1. Results are in the specified direction but do not reach significance. Model 3 tested Hypothesis 2; the results are in the specified direction but do not reach significance. Model 4 tested Hypothesis 3; the results are in the opposite direction of the hypothesis but do not reach significance.

Ad Hoc Analysis

In keeping with past research and to test the robustness of the results, the three regression analyses were also run using the dependent variable as a lagged variable. By conducting the time-lagged analysis, the hope is to strengthen the assumptions of causality, thus providing greater insights into factors that could influence the minimization of corporate misconduct. The results of the time-lagged regression analyses were somewhat similar to the other analysis (Tables 8 - 10).

Table 4. Results of Analysis for Misconduct Occurrence

	Model 1		Model 2		Model 3		Model 4	
Constant	-625.150*	-297.515	-635.964*	-299.812	-662.138*	-303.644	-657.830*	-304.500
Year	0.301*	-0.148	0.306*	-0.149	0.319*	-0.151	0.317*	-0.151
Firm Size	1.163***	-0.348	1.181***	-0.355	1.222***	-0.366	1.186***	-0.359
ROA	0.376,Ä†	-0.21	0.373,Ä†	-0.21	0.382,Ä†	-0.212	0.377,Ä†	-0.211
Debit-to-Equity Ratio	-0.27	-0.238	-0.272	-0.241	-0.273	-0.241	-0.276	-0.246
Capital Intensity	1.348*	-0.661	1.360*	-0.666	1.442*	-0.681	1.363*	-0.673
CEO Age	0.107*	-0.054	0.110*	-0.054	0.107*	-0.054	0.109*	-0.055
CEO Tenure	-0.037	-0.06	-0.031	-0.061	-0.039	-0.063	-0.037	-0.062
Heir Apparent Present	-0.619	-0.634	-0.644	-0.641	-0.899	-0.704	-0.609	-0.646
Total Compensation	-0.025	-0.175	0.011	-0.177	0.009	-0.177	0.056	-0.147
Current COO Heir Apparent			-0.259	-0.66	-0.608	-0.76	0.629	-1.204
Current CEO Heir Apparent					1.224	-1.251		
Tournament Compensation							-0.443	-0.516
Observations	767		767		767		767	
χ^2	21.86056**		21.55878*		21.26588*		21.55214*	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 5. Results of Analysis for Misconduct Count

	Model 1		Model 2		Model 3		Model 4	
Constant	-661.807***	-188.893	-726.063***	-198.369	-723.213***	-198.323	-707.278***	-198.996
Year	0.323***	-0.094	0.355***	-0.099	0.353***	-0.099	0.346***	-0.099
Firm Size	0.737***	-0.207	0.792***	-0.215	0.788***	-0.214	0.795***	-0.215
ROA	0.394$^{\text{,Ä†}}$	-0.209	0.384$^{\text{,Ä†}}$	-0.202	0.390$^{\text{,Ä†}}$	-0.209	0.379$^{\text{,Ä†}}$	-0.202
Debt-to-Equity Ratio	-0.127*	-0.058	-0.124*	-0.056	-0.125*	-0.058	-0.123*	-0.056
Capital Intensity	0.972$^{\text{,Ä†}}$	-0.520	1.003$^{\text{,Ä†}}$	-0.520	0.991$^{\text{,Ä†}}$	-0.514	1.012$^{\text{,Ä†}}$	-0.520
CEO Age	0.049	-0.030	0.047	-0.031	0.056$^{\text{,Ä†}}$	-0.032	0.048	-0.031
CEO Tenure	0.013	-0.036	0.034	-0.040	0.031	-0.040	0.037	-0.040
Heir Apparent Present	-0.195	-0.411	-0.276	-0.420	-0.110	-0.451	-0.278	-0.420
Total Compensation	0.051	-0.100	0.084	-0.104	0.051	-0.111	0.051	-0.116
Current COO Heir Apparent			-0.406	-0.353	-0.127	-0.448	-0.872	-0.749
Current CEO Heir Apparent					-0.671	-0.677		
Tournament Compensation							0.236	-0.330
Observations	767		767		767		767	
χ^2	35.4349***		36.03433***		36.41298***		36.73981***	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 6. Results of Analysis for Fines Assessed for Misconduct [A]

	Model 1		Model 2		Model 3		Model 4	
Constant	-5.4e+03**	-1971.817	-5.5e+03**	-1980.669	-5.5e+03**	-1981.518	-5.6e+03**	-2002.654
Year	2.623**	-0.979	2.650**	-0.983	2.657**	-0.983	2.702**	-0.994
Firm Size	7.296***	-2.198	7.360***	-2.217	7.416***	-2.228	7.355***	-2.216
ROA	1.917	-1.363	1.898	-1.359	1.886	-1.357	1.897	-1.351
Debit to Equity Ratio	-0.743	-0.614	-0.736	-0.612	-0.735	-0.612	-0.735	-0.612
Capital Intensity	9.454*	-4.361	9.470*	-4.372	9.597*	-4.389	9.452*	-4.383
CEO Age	0.713*	-0.348	0.717*	-0.349	0.701*	-0.351	0.710*	-0.350
CEO Tenure	-0.076	-0.369	-0.044	-0.381	-0.053	-0.383	-0.061	-0.384
Heir Apparent Present	-2.789	-4.033	-2.925	-4.064	-3.510	-4.371	-2.803	-4.071
Total Compensation	-0.872	-1.301	-0.626	-1.484	-0.605	-1.477	-0.285	-1.509
Current COO Heir Apparent			-1.391	-4.396	-2.305	-5.039	1.932	-8.034
Current CEO Heir Apparent					2.878	-7.708		
Tournament Compensation							-1.789	-3.638
Observations	767		767		767		767	
χ^2	22.31202*		22.32551*		22.41528*		22.33479*	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

[A] Misconduct amount is the natural log

Table 7. Summary of Results

	Misconduct Occurrence	Misconduct Count	Fine Assessed for Misconduct
H1	Direction but do not reach significance and fail to show support for Hypothesis 1	Direction but do not reach significance and fail to show support for Hypothesis 1	Results are in specified direction but do not reach significance and fail to show support for Hypothesis 1
	The presence of an heir apparent is negatively related to misconduct occurrence	The presence of an heir apparent is negatively related to misconduct count	The presence of an heir apparent is not related to the amount of fines assessed
H2	Direction but do not reach significance and fail to show support for Hypothesis 2	Direction but do not reach significance and fail to show support for Hypothesis 2	Results are in the opposite direction but do not reach significance and fail to show support for Hypothesis 2
	Current CEO heir apparent does not moderate the relationship between current heir and misconduct occurrence	Current CEO heir apparent does not moderate the relationship between current heir and misconduct count	Current CEO heir apparent does not moderate the relationship between current heir and fine assessed
H3	Results are in specified direction but do not reach significance and fail to show support for Hypothesis 3	Results are in opposite direction but do not reach significance and fail to show support for Hypothesis 3	Results are in specified direction but do not reach significance and fail to show support for Hypothesis 3
	Tournament compensation does not moderate the relationship between current heir apparent present and misconduct occurrence	Tournament compensation does not moderate the relationship between current heir present apparent and misconduct count	Tournament compensation does not moderate the relationship between current heir apparent present and find assessed for misconduct

Table 8. Lagged Results of Analysis for Misconduct Occurrence

	Model 1		Model 2		Model 3		Model 4	
Misconduct Occurrence Constant	-76.433	(339.570)	-175.978	(352.611)	-179.226	(355.146)	138.623	(606.773)
Year	0.028	(0.169)	0.077	(0.176)	0.078	(0.177)	-0.078	(0.302)
Pay Gap	0.973**	(0.350)	1.083**	(0.376)	1.083**	(0.376)	1.357*	(0.649)
ROA	0.262	(0.284)	0.220	(0.298)	0.219	(0.298)	-0.470	(1.015)
Debt-to-Equity Ratio	-0.258	(0.333)	-0.248	(0.349)	-0.247	(0.349)	-1.183	(1.608)
Capital Intensity	0.624	(0.816)	0.634	(0.855)	0.636	(0.855)	0.466	(1.573)
CEO Age	0.141*	(0.061)	0.159*	(0.066)	0.158*	(0.067)	0.127	(0.105)
CEO Tenure	-0.061	(0.068)	-0.031	(0.069)	-0.031	(0.069)	-0.034	(0.097)
Heir Apparent Present	0.067	(0.660)	-0.086	(0.681)	-0.106	(0.727)	-0.552	(1.154)
Total Compensation							-1.066	(1.051)
Current COO Heir Apparent			-1.626*	(0.745)	-1.659Ä†	(0.862)	-3.367	(3.328)
Current CEO Heir Apparent					0.111	(1.485)		
Tournament Compensation							0.914	(1.261)
Ln Σ2u Constant	2.041***	(0.472)	2.168***	(0.452)	2.164***	(0.456)	1.937Ä†	(1.028)
Observations	641		641		641		260	
χ^2	13.05894		14.91287		14.99666		5.406468	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 9. Lagged Results of Analysis for Misconduct Count

	Model 1		Model 2		Model 3		Model 4	
Misconduct Count Constant	-135.647	(217.548)	-204.645	(219.371)	-207.471	(220.713)	-59.324	(455.467)
Year	0.060	(0.109)	0.094	(0.110)	0.095	(0.110)	0.021	(0.227)
Pay Gap	0.651**	(0.218)	0.714**	(0.219)	0.714**	(0.220)	1.053*	(0.442)
ROA	0.296	(0.350)	0.244	(0.307)	0.228	(0.292)	0.080	(0.639)
Debt-to-Equity Ratio	-0.100	(0.294)	-0.095	(0.283)	-0.105	(0.290)	-1.196	(1.412)
Capital Intensity	0.486	(0.570)	0.524	(0.550)	0.538	(0.545)	0.859	(1.024)
CEO Age	0.131**	(0.043)	0.128**	(0.042)	0.137**	(0.043)	0.140 Ä†	(0.077)
CEO Tenure	-0.031	(0.041)	-0.006	(0.044)	-0.011	(0.044)	0.024	(0.093)
Heir Apparent Present	0.249	(0.433)	0.115	(0.435)	0.311	(0.462)	-0.655	(1.042)
Total Compensation							-0.382	(0.603)
Current COO Heir Apparent			-0.527	(0.351)	-0.186	(0.430)	-3.070	(2.323)
Current CEO Heir Apparent					-0.905	(0.712)		
Tournament Compensation							1.159	(0.968)
Ln α Constant	2.061***	(0.341)	1.985***	(0.341)	1.986***	(0.343)	2.377***	(0.636)
Observations	641		641		641		260	
χ^2	24.278		26.888		28.045		11.832	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 10. Lagged Results of Analysis for Fines Assessed for Misconduct[A]

	Model 1		Model 2		Model 3		Model 4	
Ln Misconduct Amount Constant	-1.60E+03	(2,087.851)	-2.30E+03	(2,069.359)	-2.30E+03	(2,077.954)	-519.083	(4,387.913)
Year	0.748	(1.041)	1.069	(1.031)	1.066	(1.036)	0.203	(2.183)
Pay Gap	6.722**	(2.292)	7.184**	(2.316)	7.184**	(2.317)	8.092*	(4.078)
ROA	1.479	(1.971)	1.027	(2.028)	1.028	(2.029)	-4.641	(6.872)
Debt-to-Equity Ratio	-1.549	(2.270)	-1.341	(2.311)	-1.342	(2.314)	-7.246	(10.959)
Capital Intensity	3.816	(5.422)	3.505	(5.460)	3.501	(5.464)	1.267	(11.474)
CEO Age	0.980*	(0.391)	1.009*	(0.394)	1.012*	(0.405)	0.517	(0.636)
CEO Tenure	-0.383	(0.409)	-0.080	(0.397)	-0.080	(0.397)	0.246	(0.681)
Heir Apparent Present	2.056	(4.083)	0.425	(4.037)	0.461	(4.289)	-1.685	(8.173)
Total Compensation							-4.502	(5.941)
Current COO Heir Apparent			-10.534*	(4.247)	-10.469*	(4.963)	-17.175	(19.957)
Current CEO Heir Apparent					-0.216	(8.660)		
Tournament Compensation							4.100	(8.157)
Σu Constant	18.820***	(3.977)	18.706***	(3.890)	18.715***	(3.913)	19.295*	(8.019)
Σe Constant	12.239***	(1.679)	11.824***	(1.615)	11.822***	(1.616)	13.865***	(3.903)
Observations	641		641		641		260	
χ^2	16.468		20.241		20.224		5.356	

Standard errors in parentheses; Ä† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

[A]Misconduct amount is the natural log.

CHAPTER V

DISCUSSION AND CONCLUSION

The topic of corporate misconduct has received a great deal of media attention as of late. From the collapse of Enron due to deceptive accounting practices (Thomas, 2002) to Wells Fargo engaging in the creation of fraudulent customer accounts and more recently Mylan's Epipen price gouging scandal (Matthews & Heimer, 2016), it appears that interest in organizations engaging in corporate misconduct is rising. There has been little research investigating organizational structure and what factors incite or deter corporate misconduct. The lack of research attention is puzzling given the saliency of the ramifications of misconduct in today's global business environment. This research seeks to understand and begin a conversation regarding what motivates members of TMTs, specifically heirs apparent, to minimize corporate misconduct. The research question focuses on organization structure and TMT motives to minimize misconduct and seeks to complement existing corporate misconduct literature, which has a tendency to focus on financial misrepresentation conduct due to the tangibility of the concept (Desai et al., 2006; Devers et al., 2009; Flanagan et al., 2008; Karpoff et al., 2008).

This study provides evidence that if organizations aim to deter members of the TMT from engaging in misconduct, they should focus their efforts on monetary incentives as pay gap was found to correlate with levels misconduct. This finding is consistent with prior studies on tournament theory, which state the effort an individual exerts will be guided by the prize (monetary) disparity (Becker & Huselid, 1992). This suggested course of action could be viewed as risky by some. Research indicates that pre-set incentives could also encourage misconduct such as the Wells Fargo example (Egan, 2016 b) due to the fact that the bounded rationality perspective suggests individuals will operate in such a way to ensure they reach a particular outcome (Harris & Bromiley, 2007). This dilemma sets the stage for the next level of conversation regarding TMT motivation and organizational misconduct. Organizations need to think through how to balance incentivizing desired outcomes without fostering an environment that cultivates misconduct.

Theoretical Implication

This research makes two primary theoretical contributions to the management literature. First, this research shifts the corporate misconduct conversation from only focusing on financial misconduct to focusing on antecedents of misconduct and not characteristics to misconduct outcomes. By expanding the application of Upper Echelon Theory – which posits that executives' experiences, personalities, and values influences their understanding of a situation, thus shaping the way in which the executive responses to situation (Hambrick & Mason, 1984) – researchers can gain a better understanding of how motivation for a desired result also influences the way in which executives respond to situations. This shift in focus can serve as the launching pad for researchers to provide meaningful insights as to how to motivate TMT members to act in a way that discourages misconduct.

The second theoretical implication hinges on bridging the theoretical silos that exist in research examining misconduct, ethical leadership, and behavioral theories. Management literature stands to benefit from integrating these three areas of theory. When examining corporate misconduct, the insights gained from combining these theories could prove more meaningful and prompt an updated understanding of how firms build cultures and reputations that are more positive. In addition, combining theories could lead to the development of new more integrative theories. This stream of research would offer richer insights on the motives of TMTs as they relate to corporate misconduct and provide innovative approaches for reducing misconduct.

Practical Implications

The practical implications of this study lie with organizational reward policy and succession planning. As stated earlier in the discussion section, organizations will need to balance the risk of rewarding desired outcomes with creating environments that consciously or subconsciously encourages misconduct. An option for organizations to consider is the form of payment. Could the organization offer other “prizes” that have a monetary value? Organizations can reference misconduct literature and develop creative incentive plans that offer more than monetary awards, thus possibly reducing motives to participate in misconduct.

The business setting is transitioning to a global environment, resulting in very complex organizational structures. As organizational complexity increases, so does TMT members’ bounded rationality. To address this complexity, organizations can leverage succession literature to assist with the minimization of misconduct. Succession literature aims to create smooth leadership transitions plans as organizations merge and divest businesses and as the opportunity for firms to engage in misconduct also increases. Organizations can gain knowledge on ways to develop rewards packages that encourage members of TMTs who aspire to become CEOs to make every effort to minimize misconduct.

The last practical implication hinges on strategic planning in organizations. As organizations develop their strategic plans, they can draw upon misconduct literature to enact policies and procedures to ensure that they are taking steps to thwart misconduct. The policies and procedures should include training that specifically defines misconduct and outlines behaviors that are considered misconduct. This will better enable individuals to recognize misconduct and abstain from engaging in it (Ashforth et al., 2008). This might also minimize government policies and procedures as a reaction to large-scale misconduct. As organizations recognize and gain insights as to antecedents of misconduct, they can develop a strategy to build a culture that minimizes misconduct.

Limitations and Future Research

To the best of my knowledge, this study is the first of its kind to examine organizational structure and its influence on corporate misconduct. As such, it was explicitly designed to investigate one role within the TMT, heir apparent, and the effects of the motivation to become CEO on corporate misconduct. By restricting the study to one specific role, the amount of data was limited. Less than 50% of organizations across industries have a COO, and even fewer have an heir apparent (Hambrick & Cannella, 2004). Thus, it is difficult to generalize the results as data was only available for 5% of the firms included in the study. Future research should incorporate multiple industries and investigate whether there is a stronger relationship between the presence of an heir apparent and corporate misconduct. By expanding industries, studies that separate 2-digit SIC codes as categorical variables will allow differences across classification to be observed. For example, separating the oil and gas industry from the utilities industry would allow researchers to account for the fact that these industries have boards of directors that monitor misconduct and that may influence misconduct outcomes. These types of observations could provide meaningful context on the influence of heirs apparent in different industries and the resulting impact on corporate misconduct.

The definition of misconduct also contributed to the limitations of this study. For this study, misconduct was defined as environmental violations assessed to an organization by the EPA. Knowing that there are a variety of ways an organization can engage in misconduct, data from multiple reporting agencies (OSHA, FDA, ATF, etc.) should be used to compile a more robust data set. Including more reporting agencies may allow for greater insights regarding organizational structures and systems and corporate misconduct.

Future studies should also limit the time frame in which the study is collected to less than five years as the average tenure of a CEO is 5.3 years (Dikolli, Mayew, & Nanda, 2014). This study collected data over a six-year period; if the average CEO tenure is 5.3 years, the presence of an heir apparent could have been impacted. If a new CEO is at the beginning of his/her tenure during this six-year time frame, then an heir apparent may not be named until later in the incumbent CEO's tenure, thus impacting the results of the study.

Another possible area of research is to look at all of the members of the TMT and explore whether there is a relationship between other TMT positions and corporate misconduct even though an heir apparent is the "designated" successor of the incumbent CEO. That does not mean that other members of the TMT are not vying for the CEO position. This stream of research could prove fruitful in explaining whether certain positions within the TMT are more effective in minimizing corporate misconduct.

An ad hoc analysis testing the regression results using the dependent variable as a lagged variable was conducted. The results of the ad hoc analysis were similar to the overall study results and accounted for a one-year lag. However, the effects of misconduct may not impact the organization the following year. Typically, there is an investigation and recommendations as to the penalties that should be assessed to the organization. This process can take between two to three years at a minimum. Therefore, future studies should account for a two- to three-year lag in order to capture when an organization might actually feel the impact of being caught engaging in misconduct.

The final suggestion for future research centers around tournament compensation. Tournament compensation suggests that the behavior of individuals is influenced by monetary compensation (Ehrenberg & Bognanno, 1990). This study investigated the linear relationship between the gap in pay between CEOs and heirs apparent using tournament compensation as a moderating variable. Evidence that a linear relationship exists between this gap in pay and the organization engaging in corporate misconduct was shown. However, the correlation between the two variables was not strong. Research by Ridge et al., 2015 suggests the relationship between the gap in pay is curvilinear. Future research using tournament compensation as a mediating variable versus a moderating variable could provide greater insights on the relationship between tournament compensation and misconduct. The aforementioned suggestions for future research would advance the strategic management literature on corporate misconduct and provide guidance on whether corporations can develop systems and structures that will make them less likely to engage in corporate misconduct.

Conclusion

This dissertation sought to join the corporate misconduct conversation by investigating the influence top management team structure has on corporate misconduct. Specifically, what motivates the heir apparent to minimize misconduct? Corporate misconduct literature tends to focus on individuals and unethical behavior or corporations that get caught engaging in misconduct verses examining the structure and systems of the organization and the impact it has on misconduct. This dissertation suggests that the motivation of the heir apparent to become CEO will influence the amount of effort exerted by the heir apparent to minimize corporate misconduct within the organization. While the hypotheses in this study were not supported, insights into the effects of compensation on minimizing misconduct were garnered. Future research building on this research should prove fruitful in developing constructs that explain the relationship organizational structure and systems have on corporate misconduct.

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