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Two Studies Examining the Effects of Industry Controversy on Accountability and Social and Environmental Accounting

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TWO STUDIES EXAMINING THE EFFECTS OF INDUSTRY CONTROVERSY ON ACCOUNTABILITY AND SOCIAL AND ENVIRONMENTAL ACCOUNTING

by

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ABSTRACT

The following dissertation consists of two studies investigating the relationships between industry controversy and accountability. In Study 1, I develop a theoretical framework for identifying industry controversy and I discuss the applications to accountability in social and environmental accounting (SEA) research. The framework consists of criteria to define industry controversy (a difference of opinion at a societal level about a routine feature) as well as two primary theories (organizational legitimacy and organizational stigma) and two secondary theories (utility attribution and stigma transfer) that can explain organizational outcomes. Study 1 concludes with a discussion of areas of accounting research where this framework can further our understanding of accountability within SEA. Future research can examine the formation of conflicting judgments within society, the management of conflict through accountability mechanisms by organizations, and the responses to accountability by various stakeholder groups.

In Study 2, I further investigate one of the propositions related to industry controversy discussed in Study 1. When controversies occur, organizations can be left with a stigma that causes stakeholders to distance themselves, yet the organizational stigma research identifies two types of stigma that organizations experience (event stigma and core stigma). Further, independent rating agencies provide score that purport to quantify the severity of a controversy. I explore investor responses to event stigma and core stigma and how controversy scores influence their judgment and decision making. Using non-professional investors, I run a 2x2 between-subjects experiment. Results suggest that investments decrease more when a high controversy score is given to an organization with core stigma (versus event stigma), but that invests perceived organizations with event stigma to be more responsible for the controversy. The results of this study provide a meaningful contribution to the theory of organizational stigma and our understanding of the effects of quantifying complex non-financial indicators.

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LIST OF ACRONYMS

APY	Annual Percentage Yield
CAQ	Center for Audit Quality
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
ESI	Environmentally Sensitive Industries
FASB	Financial Accounting Standards Board
GRI	Global Reporting Initiative
NGO	Non-Governmental Agencies
NRA	National Rifle Association
POC	Persons of Color
SEA	Social and Environmental Accounting
SASB	Sustainability Accounting Standards Board
SRI	Socially Responsible Investing

GENERAL INTRODUCTION

This dissertation consists of two independent but related studies investigating accountability and social and environmental accounting (SEA) in organizations with industry controversy. The purpose of this dissertation is to further our understanding of organizational accountability within SEA by considering the tensions that exist between organizations and stakeholders when industry controversy is present. Study 1 provides the theoretical framework for conceptualizing how the construct of industry controversy can influence behavior and elaborates on the ways in which this construct applies to SEA research. Study 2 extends on the theory of organizational stigma discussed in Study 1 by examining the interaction between organizational stigma and controversy scores on investor decision-making.

Study 1: I Know It When I See It: A Theoretical Framework for Examining Industry Controversy and Accountability

Financial and managerial accounting have been researched for decades and the principles developed are based on accountability to shareholders and management, respectively. Recent developments have led to new forms of accounting for social and environmental performance, but accounting researchers need to develop these principles with an organization's accountability to society in mind. I explore the opportunities for research in organizations with contested social contracts and propose the study of a theoretical construct of *industry controversy*. The first contribution of this study is a theoretical framework consisting of criteria defining industry controversy (a difference of opinion at a societal level about a routine feature) and two primary theories (organizational legitimacy and organizational stigma) as well as two secondary theories (utility attribution and stigma transfer). The second contribution is discussing ways in which this framework can aid in the study of accountability to understand the tensions organizations face in providing stakeholders with accounts of their social obligations. Future research can examine the formation of conflicting judgments within society, the management of conflict through accountability mechanisms by organizations, and the responses to accountability by various stakeholder groups.

Study 2: Investor Response to Controversy Quantification Under Event or Core Stigma

When controversies occur, organizations can be left with a stigma that causes stakeholders to distance themselves. The organization science literature discusses two types of organizational stigma, event stigma and core stigma. Stakeholders may respond differently to these stigmas, yet there is limited empirical research demonstrating these differences. Recently, scores have been provided to investors by independent rating agencies that purport to quantify the severity of a controversy. I explore investor responses to event stigma and core stigma and how controversy scores influence their judgment and decision making. Using non-professional investors, I conduct a 2x2 between-subjects experiment. Results suggest that a high controversy score has a more negative impact on investment decisions under core stigma and that organizations with event stigma (versus core stigma) are percieved to be more responsible for the controversy. The results of this study provide a meaningful contribution to the theory of organizational stigma and our understanding of the effects of quantifying complex non-financial indicators.

STUDY 1: I KNOW IT WHEN I SEE IT: A THEORETICAL FRAMEWORK FOR EXAMINING INDUSTRY CONTROVERSY AND ACCOUNTABILITY

1. Introduction

In recent years, society and shareholders have increased pressure on organizations to provide accounts of social and environmental performance (Grant Thornton 2021). The accounting profession is being positioned as experts on not only accounting for economic performance but also social and environmental performance (Malsch 2013; Cohen and Simnett 2015; Center for Audit Quality [CAQ] 2020). Yet the expertise of the accounting profession has developed around financial-based accounting, which is far less complex and more predictable than the function of accounting when considering the interaction among social, environmental, and economic developments (Unerman and Chapman 2014). If the discipline of accounting wishes to claim expertise over accounting for social and environmental performance, it will require accounting academics to devote more space to exploring the complexities of organizational accountability (Gray 1992; Cooper and Owen 2007; Dillard and Vinnari 2019).

As financial-based accounting is primarily a means of providing accountability for fiduciary obligations, it stands to reason that social and environmental accounting (SEA) should provide accountability for social (and environmental) obligations (Ramanathan 1976). Social and environmental obligations (i.e., corporate social responsibility [CSR])[1] are much more difficult to determine than economic-based fiduciary obligations, thus accounting for those obligations are more complex. Social contracts are the informal agreements said to stipulate the conditions under which an organization is granted access to economic, human, and natural resources (Keeley 1988; Bishop 2008). Yet, since these contracts and social obligations are not formally

[1] In this paper, I refer to both social and environmental accounting (SEA) and corporate social responsibility (CSR). I use SEA when discussing the larger accounting discipline and CSR when discussing the aspect of social obligations that are intended to be captured through SEA.

stated, researchers can leverage the conditions of organizations with openly contested social contracts to provide insights into how society, organizations, and stakeholders determine and perceive accountability for CSR.

In Section 2, I elaborate on the prior argument and review the current state of research in this area. The extant literature on organizations with contested social contracts is narrow and divergent. Both sociology and organization science have examined topics related to this phenomenon in the form of contested markets (Schiller-Merkens and Balsiger 2019) and controversial industries (Hong and Kacperczyk 2009; Cai, Jo, and Pan 2012). While sociology has taken a very broad approach by examining the contestation of free market capitalism, the controversial industry research in the organizational literature often focuses on alcohol, gambling, and tobacco though other industries are studied albeit less frequently.[2] The literature has provided limited discussions of accountability around accounts of CSR in controversial industries and, further, has not developed a theoretical understanding of an organizational-level construct. I propose the organizational construct of *industry controversy* and discuss the implications of industry controversy on SEA research.

In addressing the first research question, I develop a theoretical framework by developing a list of criteria and theories. The criterion defines that industry controversy exists when there is a difference of opinion at a societal level about a routine feature in the industry. This criterion can significantly influence the epistemological and ontological approach to forming research questions. The theories proposed in the framework are organizational legitimacy (quasi-legitimacy) and organizational stigma (core stigma) with a discussion of moderating theories, utility attribution and stigma transfer. The framework is discussed in more detail in Section 3.

[2] See Table 2 for a list of these industries.

To address the second research question, I apply the framework to a research agenda in SEA to explore some of the ways in which industry controversy will influence accounts of CSR and accountability. For example, I explore the legitimizing strategies of social media platforms and the management of stigma persistent in the tobacco industry. I end Section 4 by using the theories discussed to develop industry controversy domains that can aid researchers in understanding and predicting differences that are observed across organizations with industry controversy. These industry controversy domains are *rationalized controversy* (i.e., functional utility and low stigma transfer), *divisive controversy* (i.e., functional utility and high stigma transfer), *venial controversy* (i.e., hedonic utility and low stigma transfer), and *deviant controversy* (i.e., hedonic utility and high stigma transfer).

This study makes several contributions to the academic literature. First, the theoretical framework can be beneficial to many streams of research in organization sciences as these features of industry controversy can influence various behaviors and outcomes, such as management styles or marketing strategies. Studies on these topics can make contributions to the theories of organizational legitimacy and organizational stigma as well as to the larger sociological construct of contested markets. More specifically, this framework contributes to the SEA literature by exploring what industry controversy can reveal about organizational accountability. Even though organizations with industry controversy make up a small fraction of organizations, understanding the organizational context under which highly contested social contracts are negotiated can provide important insights into the accountability of SEA.

Future research into this phenomenon can also provide meaningful insights for standard-setters and practitioners. Standard-setters (e.g., FASB) are facing more pressure to codify standards around SEA[3] and regulators, like the SEC, have indicated this will be on their agenda (Lee 2021). More specifically, ratings agencies like MSCI and Sustainalytics, which provide indicators for an organization's environmental, social, and governance (ESG)[4] risks, have recently included a rating for 'controversy.' Researchers can provide insight into nuances that exist in an organization with industry controversy and the influence quantifying complex social constructs has on societal, organizational, and stakeholder outcomes.

2. Background

2.1. Accountability & Social and Environmental Accounting

Accounting is one of the most fundamental aspects of modern business, providing the rationale for major business decisions (Savich 1977; Bushman and Smith 2001) and even influencing the reality of organizations (Burchell, Clubb, Hopwood, Hughes, and Nahapiet 1980; Hines 1988). Within organizations, the established systems of accounting will form the technical construction of accountability, determining how activities are accounted for and who has a right to those accounts (Roberts and Scapens 1985; Dillard and Vinnari 2013). As such, accounting principles are developed with the intent of formalizing how organizations most transparently reflect these activities, typically (but not always) in economic terms. Financial accounting develops with the interest of shareholders in mind and managerial accounting develops with the interest of management in mind.

Given the significant impact that organizational activities can have on a society, stakeholders and academics have called for accounts of an organizations impact on critical social

[3] The Wall Street Journal: "Companies Want FASB To Focus On Crypto, ESG-Related Rule Making" (Mauer 2021).
[4] Environmental, Social, and Governance (ESG) is the current buzzword concerning CSR accounts. Whether this term refers to something distinct or not is up for debate. I only use this term in places where it is the term officially used.

and environmental issues. The standardization of accounting for social and environmental issues has advanced rather disparately[5] across the globe (Meek, Roberts, and Gray 1995; Maignan and Ralston 2002; Christensen, Serafeim, and Sikochi 2022); the mainstream accounting research focuses mainly on the economic implications for providing these disclosures, commonly examining how disclosures impact firm value (Moser and Martin 2012; Elliott, Jackson, Peecher, and White 2014; Khan, Serafeim, and Yoon 2016; Bartov, Marra, Momenté 2021; Serafeim and Yoon 2022). Researchers are beginning to take a broader perspective with recent studies examining the effects of CSR on tax compliance (Davis, Moore, and Rupert 2022), labor market mobility (Jia, Gao, and Fang 2023), and juror judgments (Stuart 2023). While all these studies can contribute to the scientific literature on CSR, the issue that should be most critical for SEA researchers is how to develop accounts of social and environmental performance that most fairly represent accountability to the society in which these organizations operate (Gray 1992; Cooper and Owen 2007; Dillard and Vinnari 2013).

The SEA literature examines accountability in current CSR disclosure practices and frequently concludes that the current methods of accounting fail to provide sufficient social and environmental accountability (Milne, Tregidga, and Walton 2009; Dillard and Vinnari 2013; Radcliff, Spence, and Stein 2016). Suggestions have been made over decades on how to improve accountability, starting with social audits, where organizations periodically monitor and measure performance based on their social obligations (Sethi 1974; Natale and Ford 1994). Other studies have suggested that accountability can be improved through dialogic forms of accounting (Brown 2009), strategic (versus tactical) accountability (Fox 2015), accountability as a form of

[5] Standards setters, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), have attempted to formalization these disclosures. See Schönherr, Vogel-Pöschl, Findler, and Martinuzzi (2022) for a review of these frameworks.

recognition and exposure (Frey-Heger and Barrett 2021), and incorporating both hierarchical and socializing accountability (Frostenson and Johnstone 2023). While each of these proposed suggestions can move forward research on accountability in SEA, I wish to offer an additional perspective for researchers to consider.

The role of SEA is to account for an organization's consumption of resources and contributions to society to determine whether the obligations expected from society have been met (Sethi 1974; Waddock 2016). Contracts are formed with organizations that dictate the conditions under which society is granting access to the economic, human, and natural resources of that society. Some of these contracts are formal, like the charter of incorporation, and some are informal, like the social contract (Gray, Owen, and Maunders 1988; Keeley 1988; Donaldson and Dunfee 1994). Societies allow organizations access to these resources as long as they believe the "aggregate contribution to the society is more than its aggregate consumption of the society's resources" (Ramanathan 1976, 519). Social contracts are at the heart of business ethics as ethical organizational behavior is determined by an organization's responsibility to the public interest (Donaldson and Dunfee 1994; Donaldson and Dunfee 2002). Likewise, social contracts are an important aspect for SEA research (Deegan 2014; Lennard and Roberts 2023).

Social contracts between organizations and society are complex and developing a robust research stream on the negotiation of – and adherence to – these contracts require varied approaches. One area that could make significant contributions to the academic understanding of SEA and accountability is studying the development of and response to accounts of CSR in organizations with contested social contracts. Organizations with a very salient negative impact on society provide a rich context for understanding these accounts since tensions in society can make sufficient accountability critical for organizational survival. While social contracts can become individually contested for various reasons, organizations that belong to an industry that is deemed controversial provide the most readily available population for consistent observation of contested social contracts.

2.2. Contested Markets & Controversial Industries

Sociology examines contested social contracts through the literature on morally contested markets. This research stream explores the forces in society that lead to a particular market becoming contested, typically by documenting the historical political struggles around these markets (Schiller-Merkens and Balsiger 2019). The perspective sociology has taken on contested markets is broad, encompassing the moral contestation of markets in general (i.e., the morality of free market capitalism) as well as the contestation of labor markets (Nadai and Canonica 2019), carbon credits (Valiergue 2019), ride sharing platforms (Serafin 2019), as well as controversial industries (i.e., gambling and organ sales; Steiner and Trespeuch 2019). This research provides valuable insights into the societal context of these organizations but has not gone as far as to investigate the issue of organizational accountability in morally contested markets.

The related literature from the organization sciences developed mostly independent from the discussions in sociology. The emergence of controversial industries in the organization literature was directed toward investors considering potential investment decisions.[6] The seminal academic studies on controversial industries[7] aimed to corroborate the evidence on the economic differences between socially responsible and socially irresponsible investments (Schueth 2003). These studies were interested in noting that investments in these 'sinful' industries (i.e., alcohol, gambling, and tobacco) provide greater returns because their stock is undervalued in the market

[6] Slate Magazine: "God Vs. Satan: Who's The Better Investor?" (Gross 2005).
[7] Organizational research on these industries has described them as stigmatized, vice, or sin in addition to controversial. In this paper, I collectively refer to these industries in prior studies as *controversial industries*.

(Fabozzi, Ma, and Oliphant 2008; Liston and Soydemir 2010; Richey 2016; Trinks and Scholtens 2017). This is likely due in part to having less coverage by financial analysts, fewer institutional investors, and financing operations more through debt than equity (Hong and Kacperczyk 2009). Liu, Lu, and Veenstra (2014) find that the level of institutional ownership and financial analyst coverage is generally consistent with societal norms about the industry yet diverges once the returns are high enough that financial interests supersede social norms. Over the years, subsequent research has broadened the concept of controversial industries to include industries such as firearms, petroleum, and pharmaceuticals.

The research on CSR in controversial industries developed in the same way as the mainstream accounting research on CSR. These studies seek to explore the effectiveness of CSR accounts in controversial industries due to the perceived contradiction of disclosing socially responsible activities while engaging in controversial practices (Lindorff, Jonson, and McGuire 2012; Palazzo and Richter 2005). Initial expectations were that disclosing CSR may be ineffective (or even backfire) because these industries contribute negatively to social issues, yet results suggest that the market responds positively to CSR performance (Cai et al. 2012). On average, accounts of CSR in controversial industries help reduce risk (Jo and Na 2012) and the cost of equity (Hmaittane, Bouslah, and M'Zali 2019). Two behavioral studies show that accounts of CSR can improve reputation (Aqueveque, Rodrigo, and Duran 2017) and reputation is improved more when those accounts are more aligned with the controversy (Song, Wen, and Ferguson 2020).

Studies that examine the accountability of CSR accounts provided by organizations in controversial industries are limited. A handful of qualitative studies explore the construction and contents of CSR accounts from organizations in controversial industries. Leung and Snell (2017) find that the management in casinos do not experience significant pressure to address social obligations, thus only provide accounts that are selective and instrumental for improving the image of this industry. Contradictory evidence is found regarding the petroleum industry, with Du and Vieira (2012) claiming that these organizations embed their CSR within their business operations and invest in alternative and renewable energies, while Cho, Laine, Roberts, and Rodrigue (2015) argue that these organizations have a mismatch between actions and accounts (i.e., organized hypocrisy).

One reason this literature stream has struggled to advance theoretically is that there is not a clearly defined construct under investigation which limits the ability of future research to study the phenomenon from different levels of analysis. Prior research has primarily investigated controversy as an industry-level phenomenon, but this is also an organizational-level phenomenon. For future research to provide deeper insights into how organizations in these industries operate and how stakeholders interact with these organizations, there needs to be a theoretically defined construct of *industry controversy*. Specifically, understanding industry controversy will allow future SEA research to provide richer insights into how social and environmental accounts are developed within this organizational context (Hopwood 1983; Roberts and Scapens 1985). The two research questions that I aim to address are (1) *what does it mean for an organization to have industry controversy?* and (2) *how does industry controversy apply to the study of social and environmental accounting?*

3. Theoretical Framework

To address the first research question, I develop a framework for research on industry controversy by synthesizing ideas from across the literature in sociology and organization sciences. In Section 3.1, I establish the criterion for identifying whether an organization has industry controversy. In Sections 3.2 and 3.3, I identify two theories (organizational legitimacy and organizational stigma)[8] that have meaningful implications for understanding the context of these organizations. This framework is summarized in Table 1.

Table 1: Industry Controversy Framework

Criteria for Industry Controversy		
	Description	
A Difference of Opinion	A difference of opinion requires there to be two sides and meaningful variables may be overlooked by failing to consider the position and influence of proponents.	
At a Societal Level	While there must be widespread recognition of the controversy regardless of which side of the debate an individual is on, societal perceptions vary due to cultural, religious, and temporal factors.	
About a Routine Feature	For a controversy to exist across an entire industry, the controversy must be around a routine feature or practice of this industry. This distinguishes industry controversy research from the literature on organizational crisis and socio-political activism.	
Theories for Industry Controversy		
	Primary Theory	Secondary Theory
Organizational Legitimacy	Quasi-Legitimacy: A state with a significant difference of opinion among members of society on whether the industry is legitimate or illegitimate.	Utility Attribution: Legitimacy manifests differently depending on the functional utility or hedonic utility of an industry.
Organizational Stigma	Core Stigma: Stigma that is the result of an organization's core attributes, such as routines, outcomes, or customers.	Stigma Transfer: Stakeholders may or may not experience significant stigma transfer from an industry's controversy.

[8] Legitimacy and stigma are considered to be non-/deindividuating phenomena (Devers et al. 2009) meaning that these theories describe phenomena that group organizations together. I do not address individuating theories, such as reputation, status, or celebrity (Devers et al. 2009; Mishina and Devers 2012), because these will be individually unique for every organization.

3.1. Defining Industry Controversy

The lack of construct development is evidenced by the varied definitions for controversial industries used in prior research.[9] Some researchers focus on 'sin' industries, defining their practices as "any act regarded as such a transgression, especially a willful or deliberate violation of some religious or moral principle" (Fabozzi et al. 2008, 84), but typically only consider those that violate principles of Western Christianity. Other researchers apply a broader definition originally used by Wilson and West (1981, 92), examining a wide range of industries that provide "products, services, or concepts that for reasons of delicacy, decency, morality, or even fear tend to elicit reactions of distaste, disgust, offense, or outrage when mentioned or when openly presented" (Cai et al. 2012, 468). Guided only by these loose definitions, researchers have taken the "I know it when I see it" approach to identification popularized by Supreme Court Justice Potter Stewart.[10] Future research needs to take a more intentional approach to identifying controversial industries so contributions can be made to the organizational phenomenon of industry controversy.

I posit that for industry controversy to be present an organization must be part of an industry where there is (1) a difference of opinion (2) at a societal level (3) about a routine feature of that industry. These three important criteria have not been explicitly defined in the prior research; in the following sections, I elaborate on the implications of these criteria for identifying and studying industry controversy. Table 2 provides a list of industries examined in the extant research on controversial industries. It should be noted, I make no claims that this is a definitive list of industries that are controversial, but it can provide a reasonable starting point.

[9] A review of the various definitions can be found in Oh, Bae, and Kim (2017).
[10] *Jacobellis v. Ohio,* 378 U.S. 197, 1964 (Stewart, J., concurring).

Table 2: Industries Previously Used in Controversial Industries Research

Tobacco	Utilities (Petroleum and Gas)	Reproductive Health
Alcohol	Pharmaceuticals	Firearms
Gambling	Biotech	Military Industrial Complex
Pornography	Cement	Cannabis

3.1.1. A Difference of Opinion

Controversy is defined as "an argument or dispute on a matter of opinion; a (typically heated) discussion involving contrary opinions; especially one conducted publicly (as in the press) and at length."[11] For a controversy to be present there must be a difference of opinions. This may seem like stating the obvious, but I would argue that very few of the extant studies have considered the duality of perspectives. Since organizations in these industries are still economically viable – and in many instances highly lucrative – failing to consider the influence of both sides of the dispute may result in studies that overlook meaningful variables.

Organizations, even controversial ones, are not beholden to those that oppose them. The sociology literature on contested markets examines the Polanyian[12] struggles and counter-struggles to acknowledge the dual perspectives on markets and morality (Balsiger and Schiller-Merkens 2019). Many organizational decisions may have little to do with appeasing opponents and are more influenced by appealing to supporters. There are likely different advantages and disadvantages for organizations in industries with very vocal proponents, such as the firearms industry,[13] compared to industries which tend not to be very publicly supported or opposed, like pornography.[14]

[11] *Oxford Dictionary*

[12] Karl Polanyi introduced the double movement thesis. Polanyi posits that, in self-regulated markets, society will attempt to "reassert itself against the commodification of land, labour and money" (Maertens 2008, 130). Double movements will occur as one group pushes for free market reform and a countermovement mobilizes against it (Maertens 2008).

[13] The New York Times: "The N.R.A. Gathering in Houson Spotlights an American Divide" (Barry 2022).

[14] The Guardian: "Why Are People Silent About the Abuses and Exploitation in Porn?" (Adegoke 2019).

I also provide a philosophical caution for failing to consider the dual perspectives of industry controversy. Sociology acknowledges that studying morally contested markets is not an investigation of a universal morality, but rather a study of how a particular society determines morality (Balsiger and Schiller-Merkens 2019). By studying 'bad' industries (Cai et al. 2012; Aqueveque et al. 2017), researchers implicitly apply a normative perspective that is not ultimately justified within the study. While no researcher can completely remove their own moral positions from their research, the impact of these positions on the research may warrant evaluation and discussion (Alvesson and Sköldberg 2018).

3.1.2. At a Societal Level

Controversy around an industry must exist at a societal level, meaning there is a widespread recognition of the controversy regardless of which side of the debate one is on. Researchers are presented with a difficult task in identifying how and when a controversy is at a societal level. Religion has previously been used as the (assumed) defense of societal forces (i.e., 'sin' industries), but studies that have taken this approach provide no elaboration on how religious forces create, maintain, or intensify negative societal evaluations of these industries. If researchers continue to take this approach, they should be providing a discussion of religiosity within their research settings since not all of society operates under the same religious dogma.

Alternately, many industries are controversial for reasons that do not stem from a lack of piety. Taking a more theoretically holistic approach to the issue of industry controversy, researchers may focus more on the emergence of social movements. Advocacy groups, such as NGOs, can be a major force in social movements (O'Sullivan and O'Dwyer 2015) and literature on social movement theory (Soule 2012) could provide insight on determining when a controversy rises to a societal level. Discussions of social movements may help explain why industries such as petroleum and tobacco are labeled as controversial but an industry such as chocolate manufacturing (e.g., Nestlé) has not been labeled controversial even though organizations in this industry have utilized structural poverty and child labor in West Africa to sell inexpensive non-essential food products and build a billion-dollar empire.[15]

Societal perspectives are dynamic and difficult to determine, thus it can be very important for researchers to broadly consider the cultural, religious, and temporal factors that determine controversy in that setting. While none of the following practices capture the *difference of opinion* issues discussed earlier, some prior research has proxied the general social perspective through average opinions. In an archival setting, Liu et al. (2014) proxies for societal views through Gallup poll results to show a correlation between societal approval and firm value. In an experimental setting, Russell, Russell, and Honea (2016) first measure attitudes toward various organizations to determine a neutral company, then develop an experiment testing how participants respond to an environmental failure in a neutral company. Whether empirical evidence is necessary for researchers to defend an industry's position as controversial at a societal level will depend on the research question, but future studies will benefit from giving this aspect greater consideration.

3.1.3. A Routine Feature

For an industry to have a controversy there must be some routine features shared across organizations in the industry. It is important to distinguish industry controversy from a related stream of research on *crisis*. While similar issues (e.g., harm to customers or the environment) can give rise to both phenomena, the crisis literature is most concerned with a sudden, non-routine incident that requires a quick response (Milburn, Schuler, and Watman 1983). For

[15] The Washington Post: "Cocoa's Child Laborers" (Whoriskey and Siegel 2019).

example, Boeing experienced a crisis with the 737 MAX, [16] but this event would not cause industry controversy for organizations in the airline industry. While there are likely many shared features between these phenomena, it will be important to differentiate their effects since responses may vary given the diffusion of routine issues within industries.

Socio-political activism is another distinct but related construct that merits discussion. Organizations engage in socio-political activism when they choose to voice their support or opposition to social or environmental causes (Bhagwat, Warren, Beck, and Watson 2020). These actions may cause contested social contracts for the offending organization if a societal divide is drawn between those who support and oppose this practice. For example, when Delta Airlines cut ties with the NRA after a school shooting[17] or when Bud Light advertised with transgender influencer Dylan Mulvaney[18] both organizations experienced significant backlash from societal groups that opposed these actions. Socio-political activism is also incredibly relevant in the study of CSR and contested social contracts; I encourage more research on the topic, but it is distinct from an industry level controversy.

Organizations that share the same industry features will likely demonstrate isomorphism which aids in generalizing the phenomenon of industry controversy. Yue, Rao, and Ingram (2013) examine the information spillover that occurred from protests and show that Target was able to learn information from protests that were happening to Walmart. There is likely a significant amount of learning spillover as organizations learn from each other how to navigate industry controversy. By studying controversy that exists at the industry level, researchers can

[16] NPR: “737 Max Scandal Cuts Boeing’s Once Rock-Solid Image” (NPR 2019).
[17] NPR: “Georgia Lawmakers Punish Delta Air Lines Over NRA Feud” (Neuman 2018).
[18] The New York Times: “Behind The Backlash Against Bud Light’s Transgender Influencer” (Holpuch 2023).

provide more generalizable contributions to understanding the organizational effects of contested social contracts.

A final consideration when identifying organizations with routine controversial industry features is how far a controversy extends down a supply chain. Organizations that produce the paper for rolling tobacco (e.g., The Great American Rolling Paper Company) or construct the machinery used to extract petroleum (e.g., Halliburton) are critical for the functioning of the larger tobacco or petroleum industries, but do not deal directly with the offending products. An area that may be fruitful for research, especially in the realm of accountability, would be to examine how materially an organization must support a controversial industry to become controversial themselves.

3.2. Organizational Legitimacy

Legitimacy theory originates from work by Max Weber (1921/1968) who provided seminal sociological work on how economies develop within a society. Weber (1921/1968) posits that the relationship between those with power (e.g., the state) and their constituents are legitimated through cooperative public behaviors. This theory has since become widely used in the organization sciences to explain the relationship between organizations and society (Suchman 1995; Bitektine and Haack 2015). In general, the literature on organizational legitimacy is most focused on the process (Johnson, Dowd, and Ridgeway 2006; Bitektine and Haack 2015) rather than understanding the outcome of legitimacy.

It is important to note here the difference between *legitimacy* and *legality*. The dimensions of legality and legitimacy have been used to differentiate markets in which organizations can operate (Cannatelli, Smith, and Sydow 2019; Schiller-Merkens and Balsiger 2019). Weber (1921/1968) acknowledges that economies do experience a type of legitimacy from being legal. Contested markets research differentiates the constructs of legitimacy and legality to consider how the contestation of markets differs for legal versus illegal organizations (Balsiger and Schiller-Merkens 2019; Dewey 2019; Steiner and Trespeuch 2019). In the organizational literature, Cannatelli et al. (2019) define the controversial economy as legal but illegitimate.[19] I affirm the importance of examining legal industries in the study of industry controversy, particularly because these industries have been granted a legal right to operate in the formal markets and thus have formal systems through which accountability is demanded.

While legitimacy is influenced by the industry an organization belongs to (Suchman 1995), I do not believe it is appropriate to classify organizations with industry controversy as illegitimate. There is limited research on illegitimacy (Glynn and Marquis 2004; Devers, Dewett, Mishina, and Belsito 2009) and it is commonly associated with the 'liability of newness' in product innovation (Dougherty and Heller 1994; Abatecola, Cafferata, and Poggesi 2012). Illegitimacy is defined as the inverse of legitimacy[20]: "the generalized perception that an entity's actions are undesirable, improper, or inappropriate within a socially constructed system of norms, beliefs, and definitions" (Glynn and Marquis 2004, 150). If both legitimacy and illegitimacy are based on a form of social consensus (i.e., generalized perceptions), then controversial industries should not be classified as either.

Contested markets research discusses illegitimacy in regard to the societal groups that contests a market's legitimacy (Steiner and Trespeuch 2019). For organizations with industry controversy there is a difference of opinion within society. Stakeholders who engage with

[19] The other economies being the formal economy (legal and legitimate), the informal economy (illegal and legitimate), and the renegade economy (illegal and illegitimate).
[20] Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995, 574).

organizations in these controversial industries likely attest to their legitimacy while at the same time a large group of society view them as illegitimate. The process of legitimation may not be the same when organizations are dealing with a societal divide.[21] When considering organizations that do experience a social consensus, organizational decisions can be based on that one societal perspective. Organizational decisions made in the context of industry controversy likely try to address competing logics (Pache and Santos 2010) or paradoxes (Lewis 2000). Decoupling is commonly used to understand how organizations deal with competing logics (Bromley and Powell 2012).

When society perceives that an organization's actions do not align with the expectations of society there is a 'legitimacy gap' (Deegan 2007) and organizations will engage in legitimating behaviors. After pornography was legalized in Denmark, organizations mimicked the practices of legitimate industries by screening pornographic films in movie theaters to bring legitimacy to their products (Jensen 2010). Reuber and Morgan-Thomas (2019) show that organizations that trade in human tissue use their communications to convey to stakeholders where they have moral legitimacy. Organizations with industry controversy may also be cautious about the extent to which they address their legitimacy gap. There are significant barriers to entry in these industries that can provide excess 'rents' to those organizations that survive the social and political scrutiny (Fabozzi et al. 2008).

The exact nature of legitimacy in organizations with industry controversy needs more research to fully understand how it differs from legitimate and illegitimate organizations. As discussed, there are many areas where this divided consensus could have meaningful

[21] For organizational researchers interested in exploring the antecedents to industry controversy (i.e., how society forms conflicting opinions), Bitektine (2011) provides a theory of social judgments of organizations that can be useful in theorizing about this process.

implications for theorizing the impact of legitimacy. Since it is inaccurate to label organizations with industry controversy as legitimate or illegitimate, organizations with industry controversy may be more appropriately defined as quasi-legitimate.[22]

Proposition 1: Organizations with industry controversy will lack societal consensus on legitimacy (i.e., they will be quasi-legitimate).

3.2.1. Utility Attribution

A legitimating factor that differs for organizations across controversial industries is the utility an industry provides to society. Consumer research has long been interested in differences in purchasing behaviors and marketing around products with differing utility (Woods 1960; Kempf 1999). Utility attributions have been shown to influence decisions in marketing (Voss, Spangenberg, and Grohmann 2003), consumer shopping behaviors (Lu, Liu, and Fang 2016) and even employee motivation (Presslee, Vance, and Webb 2013). Thus, organizations and stakeholders may exhibit different responses to legitimacy depending on the utility attribution of the industry.

Woods (1960) originally identified six different utility variables (i.e., prestige, maturity, status, anxiety, hedonic, and functional) but in the succeeding decades functional and hedonic utility have been studied most consistently. Functional utility[23] describes products "whose consumption is more cognitively driven, instrumental, and goal oriented and accomplishes a functional or practical task" (Dhar and Wertenbroch 2000, 61) such as a pencil. Hedonic utility describes products "whose consumption is primarily characterized by an affective and sensory

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[22] Quasi-legitimacy has been used by Pakulski (1986) and Horowitz (1992) to describe governments, such as the Soviet Union, which achieved power but were not seen as legitimate by citizens.

[23] Much of the extant research applies the terms utilitarian and hedonic to describe these products, but I refer to the original terminology (Woods 1960). This aids conceptual understanding by distances readers from the philosophical concept of utilitarian ethics and acknowledges the utility within both groups, despite originating from different characteristics.

experience of aesthetic or sensual pleasure, fantasy, and fun" (Dhar and Wertenbroch 2000, 61) such as candy.

Industry controversy occurs because there is some debate within society about the costs and benefits of a particular industry. It stands to reason that the process of legitimacy will occur differently for organizations in an industry with prominent functional utility (e.g., petroleum, firearms) compared to those with prominent hedonic utility (e.g., alcohol, pornography). I do not go so far as to claim that functional or hedonic utility makes one group more legitimate than the other, but I do propose future research should seek to understand the interaction effect of quasi-legitimacy and utility attribution. Stakeholders may demonstrate different elasticities in the costs they will bear for the benefits of functional versus hedonic products. Organizations may attempt to leverage their predominant utility in different ways when managing their legitimacy.

It is also relevant to note that the divide between industries using utility attribution is very similar to the industry groups when researchers have identified 'sin' industries (Liu et al. 2014) or 'addiction' industries (Acuti, Bellucci, and Manetti 2023). As discussed earlier, I believe identifying industries as 'sinful' without considering the issue of religiosity is theoretically inconsistent. As for 'addiction', this label does identify the predominant harm associated with these industries, but it is not applied consistently. There are industries other than alcohol, tobacco, and gambling that experience controversies around addiction. The pharmaceutical industry has been considered a controversial industry and is often criticized for issues related to addiction[24] but was not included as an 'addiction' industry (Acuti et al. 2023). Using utility attribution helps to differentiate the industries researched independently in extant work by focusing on the main benefits of the controversial industry rather than the costs.

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[24] Yahoo! News: "Opioid settlement to help Franklin County expand addiction recovery, prevention efforts" (South 2023).

Proposition 2: The utility attribution associated with an industry will influence the assessment and management of legitimacy in organizations with industry controversy.

3.3. Organizational Stigma

Stigma theory originated from Erving Goffman (1963/1986) who was interested in how stigma affects both the 'normals'[25] and the stigmatized. Stigma research explores how the 'mark' of social stigmas affects self-concept and self-presentational strategies, as well as the impact that stigma has on the interactions between individuals in society, such as the formation of relationships (Jones et al. 1984; Major and O'Brien 2005). Goffman (1963/1986) originally considers social stigma arising from being mentally or physically infirmed, a criminal, a homosexual, or a prostitute. More recent research in sociology and psychology considers the stigmas arising from tobacco use (Castaldelli-Maia, Ventriglio, and Bhugra 2015), abortions (Hanschmidt, Linde, Hilbert, Riedel-Heller, and Kersting 2016), HIV status (Earnshaw and Chaudoir 2009), and being transgender (Hughto, Reisner, and Pachankis 2015).

Stigma was first introduced as an organizational variable in a study on bankruptcy (Sutton and Callahan 1987). While undoubtedly an aspect of controversial industries, stigma has been discussed only in a few studies (Vergne 2012; Voss 2012; Grougiou, Dedoulis, and Leventis 2016). The lack of attention could be partly due to the limited research on organizational stigma in general. The *Journal of Management Studies* recently published a special issue on Organizational Stigma: Antecedents, Processes, and Consequences. This collection of studies demonstrates the interest in developing the theory of organizational stigma and identifies the areas where future research could make the biggest contribution (Hudson, Patterson, Roulet, Helms, and Elsbach 2022).

[25] Excuse Goffman's rather dated terminology.

Devers et al. (2009, 155) begin to develop the theory of organizational stigma and defines organizational stigma as "a label that evokes a collective stakeholder group-specific perception that an organization possesses a fundamental, deep-seated flaw that deindividuates and discredits the organization." Organizational stigma is conceptually different from other organizational theories, such as legitimacy and reputation (Devers et al. 2009; Hudson et al. 2022). While illegitimate practices can be the catalyst for organizational stigma (Hudson 2008; Devers et al. 2009), stigma is a unique construct that provides nuanced insights into organizations (Helms, Patterson, and Hudson 2019). Industries such as waste disposal (Ashforth and Kreiner 2014), organizations such as Walmart (Yue et al. 2013) and products such as those for 'feminine hygiene' (Wilson and West 1981) are legitimate but also carry a stigma. While prior research has aimed to provide a general theory of organizational stigma (Devers et al. 2009), more contributions are needed that provide insight on the social processes that produce organizational stigma and the consequences of stigmatization (Hudson et al. 2022).

Organizational stigmas are "based on the specific actions and choices of organization members (e.g., scandals, earnings restatements, or choice of business model or industry – e.g., tobacco producers, pornography)" (Devers et al. 2009, 158). Another definition of controversy notes that controversies are "marked by the opposition,"[26] suggesting that in a controversy there is some preference to the opposition's perspective. Thus, when industry controversy occurs, the opposition 'marks' these organizations. Organizations that experience stigma due to industry controversy will experience significant social, political, and legal pressures as stigma permeates society regardless of whether all of society agrees with the stigma.

[26] *Merriam-Webster Dictionary*

Further, Hudson (2008) proposes that organizational stigmas will arise either as an event stigma or core stigma. Event stigma is the result of an episodic negative event (Hudson 2008). For example, bankruptcy results in significant stigma for an organization (Sutton and Callahan 1987), but this stigma is isolated to a discreet event. This form of stigma will be related to the crisis literature discussed earlier. Furthermore, core stigma results from a core organizational attribute that suffers from some form of 'spoiled image' (Hudson 2008). While core stigma is not exclusively derived from industry-level factors, the business model or core practice that is stigmatized is most often shared by organizations across that industry (Hudson 2008).

The research on core stigma reveals interesting – and often counter-intuitive – findings about how organizations manage this condition. Hudson and Okhuysen (2009) demonstrate the challenges that a core stigma presents to organizations and how that is managed in a highly stigmatized industry such as men's bathhouses. Alternately, research has also shown that a core stigma can provide a form of moral insurance against poor corporate citizenship (e.g., greenwashing) since stakeholders have an expectation for low integrity (Kassinis, Kay, Papagiannakis, and Vlachos 2022). Another study finds that a core stigmatized organization (e.g., RuPaul's Drag Race) actively spectacularizes their core stigma as a form of 'stigma exhibition' to normalize the stigma (Campana, Duffy, and Micheli 2022).

Proposition 3: Organizations with industry controversy will be subject to core stigma.

3.3.1. Stigma Transfer

Stigma transfer is an important factor when considering how industry controversy influences organizational and stakeholder behavior. Stigma transfer[27] is discussed often in the sociology and psychology work to understand how associates, such as relatives or care providers,

[27] The term 'courtesy stigma' is used in psychology and sociology as this is the term used by Goffman (1963/1986).

are affected by another individual's stigma (Sigelman, Howell, Cornell, Cutright, and Dewey 1991; Ali, Hassiotis, Strydom, and King 2012; Phillips, Benoit, Hallgrimsdottir, and Vallance 2012). Studies find that the transfer of stigma from the stigmatized to the non-stigmatized can have major influences on relationships and behavior. Pryor, Reeder, and Monroe (2012) further elaborate on the deliberative and spontaneous processes that transfers social stigmas to associates.

Stigma transfer is indirectly studied through some of the literature on dirty work (Hughes 1951; Ashforth and Kreiner 1999). Dirty work is a term that encompasses a broad range of stigmatized occupations, such as garbage collectors, morticians, psychics, and exotic dancers (Ashforth and Kreiner 1999; Ashforth and Kreiner 2014). In the research on stigmatized occupations, identity is studied significantly with respect to employees in stigmatized organizations (Kreiner, Ashforth, and Sluss 2006), but the transfer from an organizational perspective is studied less often. Phung, Buchanan, Toubiana, Ruebottom, and Turchick-Hakak (2021) provide some evidence on the strategies employed by Uber, such as creating categorical distinctiveness and showcasing identity discrepancies, to avoid the stigma of taxi drivers transferring to Uber drivers.

Stigma transfer was more directly considered as an organizational variable by Hudson and Okhuysen (2009) in a study of stigma in men's bathhouses. When there is high stigma transfer, organizations face greater difficulty in convincing individuals, such as vendors and customers, to associate with them (Hudson and Okhuysen 2009). Kvåle and Murdoch (2022) also find that shame is a key element when transferring stigma between organizations and stakeholders. Stigma transfer from organizations is an under-researched phenomena but could help explain organizational operations in controversial industries as the social norms around some industries result in more or less stigma transfer between the industry and stakeholders.

Some of the industries with controversy appear to have greater stigma transfer than others. While there is still opposition to industries with low stigma transfer (e.g., petroleum, alcohol), stakeholders, such as investors, customers, or employees, are not significantly ‘marked’ by the organization’s stigma. When there is high stigma transfer from an industry (e.g., firearms, pornography), stakeholders are more likely to be held responsible for the controversy if their association is made public. While it is difficult to identify the cause of varying levels of stigma transfer, it is in part due to an industry’s pervasiveness within society and the opposition’s efforts to hold stakeholders responsible.

Proposition 4: The extent of stigma transfer from industry controversy will influence the relationship between organizations and stakeholders.

4. Discussion

To answer the second research question, I explore areas where SEA research could benefit from the perspectives discussed in the framework. Research investigating industry controversy at the macro-level as well as the meso- and micro-levels can have meaningful implications to the accounting literature. Within the context of industry controversy, organizations will make decisions about constructing and disclosing CSR accounts that capture the costs and benefits of the organization. Stakeholders will also interpret these accounts within the context of industry controversy and respond accordingly. As such, this setting can be leveraged to explore the demands and responses to organizational accountability when it is most critical.

Methodologically, archival accounting research can certainly benefit from considering aspects of this framework, but the framework’s primary contribution is in furthering the research on industry controversy from an organizational perspective rather than an industry perspective. Behavioral research, experimental and qualitative, can make significant contributions to the academic understanding of industry controversy by providing deeper theoretical insights into the implications for SEA.

4.1. Industry Controversy & Social and Environmental Accounting

The concept of CSR in organizations with industry controversy presents SEA researchers with many interesting tensions to explore obligations and accountability. As noted in the extant literature, these organizations are providing accounts of their benefits to society while having very salient social and/or environmental costs (Cai et al. 2012; Aqueveque et al. 2017). The CSR activities that organizations choose to engage in as well as the way they construct accounts of these activities have important implications for how stakeholders will hold organizations accountable for their social obligations.

Accounts of CSR can become complex for these organizations. Organizations may choose to provide accounts directly related to their industry controversy. These accounts intend to capture the efforts this organization has put into reducing these costs, yet these efforts can differ in important ways. Altria Group is a company that owns tobacco manufacturers but has described their business as “from tobacco company to tobacco harm reduction company".[28] Their website details the efforts and investments into innovations that reduce smoking harm and underage use. Similarly, Ben Cohen, of Ben & Jerry’s, started a non-profit cannabis line to support cannabis justice.[29] The proceeds go to help persons of color (POC) who have been incarcerated for cannabis related offenses.

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[28] https:///www.atria.com.

[29] High Times: “Ben Cohen Of Ben & Jerry’s Launches Non-Profit Cannabis Co. Focused On Criminal Justice Reform (Adams 2023).

Conversely, organizations with industry controversy may approach CSR from the perspective of offsetting the costs rather than reducing the costs. As with most organizations, CSR is broadly defined and compartmentalized. MGM Resorts (2022) dedicates very little space to their efforts to reduce gambling addiction and instead details their considerable investments in local communities. These investments include scholarships, employee volunteer hours, and food pantry donations (MGM 2022). The way accountability is being demonstrated through these accounts of CSR is critically important for developing principles around SEA.

4.1.1. Quasi-Legitimacy

Accountability and legitimacy are inherently interconnected as it is difficult to achieve widespread legitimacy without mechanisms for being held accountable (Olsen 2015). Organizations that are quasi-legitimate, such as those experiencing industry controversy, face complexities in addressing accountability since there are divided opinions where one group maintains their legitimacy and another group maintains their illegitimacy. These divided perspectives will influence both how stakeholders evaluate the costs and benefits and how organizations account for their societal costs and benefits.

To attend to this legitimacy gap, organizations engage in legitimating behaviors, such as accounting and accountability (Richardson 1987; Chen and Roberts 2010; Killian and O'Regan 2016; Patten 2020). Romi, Carrasco, Camors, and Masselli (2022) show that accounting is one of the central mechanisms used in the cannabis industry to establish legitimate practices around a controversial product. Questions remain about how organizations in controversial industries decide which CSR accounts to provide. Do these organizations aim to build a stronger case with supporters or address the concerns of opponents? Accounting research has looked at conflicting logics in hybrid organizations (Busco, Giovannoni, and Riccaboni 2017) and decoupling

(Rautiainen 2010) when considering how organizations address conflicting institutional pressures. It may also be interesting to consider how the barriers to entry (Fabozzi et al. 2008) influence accountability decisions. Do organizations evaluate the economic benefits of controversy? Do these evaluations influence how organizations address accountability?

Some industries, such as healthcare, may be more insulated from controversy due to their prominent benefits to society, but societies are constantly reassessing the legitimacy of markets (Schiller-Merkens and Balsiger 2019). The process of delegitimation (Finet 1993; Vaara and Monin 2010) can be instigated through social movements (Shrivastava and Ivanova 2015). Researchers may provide important theoretical contributions by studying organizations that are becoming quasi-legitimate. For example, social media platforms, such as Facebook and Twitter, are potentially in the beginning stages of this transition. The business model of most social media platforms is to collect and sell user data in exchange for providing a service with no associated fees. This has recently led to a significant rash of demands for accountability (Reisach 2021).[30] Facebook, still rife with criticisms, has aimed to provide greater accountability by giving users more control of their data (without disrupting their business model).

The utility attribution of the industry may influence how organizations address their legitimacy. For an organization like Facebook, arguments could be made for both functional and hedonic utility, depending on the perspective. When testifying in Senate hearings, Zuckerberg (2018) relied on accounts of functional and hedonic utility, but functional utility was more strongly emphasized. “People everywhere have gotten a powerful new tool for staying connected to the people they love, for making their voices heard and for building communities and businesses” (Zuckerberg 2018). Zuckerberg (2018) went on to mention the #metoo movement

[30] Forbes: “Holding Big Tech Accountable – Much More To Be Done, Especially With Social Media” (Suciu 2021).

and March for Our Lives that used social media platforms to mobilize, the millions of dollars in aid raised for Hurricane Harvey relief, and the millions of small businesses that use the service to grow. Future research may wish to explore how organizations approach accounts of functional and hedonic utility differently. Are they more likely to quantify the accounts related to functional utility which can improve their persuasiveness? Do they rely on sensory and affective language to communicate hedonic utility?

Though quasi-legitimate, these organizations are all legal meaning that they are bound by the tax system. The tax system is a critical part of an organization's accountability to society. Many of the organizations in these industries have excise taxes levied on their products (Bergstrom 1982; Chaloupka, Powell, and Warner 2019), a fact that may further evidence their quasi-legitimate status. These excise taxes represent the state trying to increase the financial burden on the organization and customers to either reduce behavior or mitigate the burden to society. Do excise taxes factor into how organizations and stakeholders assess accountability? Are these taxes used as further justification that this organization has addressed their social obligations?

Issues from quasi-legitimacy can influence other systems of accountability established in society. The judicial system is another accountability system for organizations (Wellens 2004). If organizations with industry controversy go through litigation, their quasi-legitimate status could have an influence of judicial outcomes. The quasi-legitimacy of organizations with industry controversy will affect the juror pool potentially making consensus difficult and resulting in more hung juries. Future SEA research could examine how these features influence the effectiveness of accountability within the judicial system and how accounts of CSR influence these outcomes.

4.1.2. Core Stigma

Stigma is studied in research far less often than legitimacy and the paucity of prior work presents challenges for predicting relationships between stigma and accountability. Conversely, the dearth of research provides many avenues for future research to explore (Hudson et al. 2022). SEA research exploring the relationship between stigma and accounting can also make meaningful contributions to the development of a theory of organizational stigma (Devers et al. 2009; Hudson et al. 2022).

As discussed earlier, Hudson (2008) conceptually differentiated between event and core stigma. Organizations with industry controversy will have core stigma, but there is currently very little empirical evidence documenting differences in these stigmas. Theoretically, it can be important to clarify the distinction between the effects these stigmas have on organizations. Lennard (2023 [Study 2]) provides some initial evidence that this could matter for accountability since shareholders hold organizations with event stigma more responsible for the stigmatizing incident than they do when an organization has a core stigma. Conversely, event stigmas are discrete events which organizations may be able to address more explicitly. Future research may provide important contributions by studying the different strategies that organizations use to address these different stigmas through their CSR accounts.

Stigma can be a powerful tool for social conformity by 'othering' the stigmatized group (Goffman 1963/1986; Major and O'Brien 2005). Major conceptual contributions can be made by examining how stigma is leveraged by the opposition to increase accountability pressures. Organizations in the tobacco industry (or more inclusively, the nicotine industry)[31] have had to manage core stigma for decades. The industry came under scrutiny when it was discovered that

[31] Healthline: "Tobacco Companies Taking Over The E-Cigarette Industry" (Abate 2019).

these organizations had ignored evidence that their products pose health risks (Karagueuzian, White, Sayre, and Norman 2012). Opposing groups highlight this stigma in anti-tobacco campaigns by juxtaposing the reality of smoking with deceptions perpetuated by the tobacco industry. Truth Initiative (2021) publicizes the amount tobacco producers spend on advertising CSR compared to the fraction spent on teen smoking cessation. The advent of e-cigarettes, which do not produce smoke, bolstered nicotine sales and temporarily reduced stigma, yet stigma reemerged as concerns rose that flavored e-cigarette products target children and teens.[32]

Alternately, stigma may not always have the effects intended by the opposition. Social stigmas can become a scapegoat for the stigmatized on which they hang "all inadequacies, all dissatisfactions, all procrastinations and all unpleasant duties of social life, and […] come to depend on it not only as a reasonable escape from competition but as a protection from social responsibility" (Goffman 1963/1986, 10). Are organizations with industry controversy more likely to blame deficiencies in their accountability on their stigma within society and put less effort into addressing criticisms? Are stakeholders more likely to blame deficiencies on the stigma, especially when the stigma exists for an entire industry?

Stigma transfer will also significantly influence the effects of an industry's stigma. While shame (Kvåle and Murdoch 2022) appears to be an important variable for anti-tobacco advocacy groups, research on smoking cessation finds anti-tobacco campaigns result in greater use of the product due to the stigma transferred to the customer (Stuber, Galea, and Link 2009; Riley, Ulrich, Hamann, and Ostroff 2017). Further, stigma transfer may reduce the opportunities available for an organization to address their social obligations. Corporations partner with non-profits and NGOs to increase their benefit to society, but stigma transfer may lead to fewer

[32] CNN Health: "FDA Block Sale Of 55,000 Flavored E-Cigarette Products" (Mascarenhas 2021).

partnerships because non-profits are hesitant to take money from a benefactor who could taint their reputation (Dunn 2010). This influence has been demonstrated in organizations with event stigma, such as the Human Rights Campaign rejecting a donation from Disney,[33] and in organizations with core stigma, such as Susan G. Komen turning down a donation from Pornhub.[34]

The level of stigma transfer can also have a significant impact on how organizations address their accountability. At high levels of stigma transfer, organizations may have fewer stakeholders willing to vocally support them. This could make organizations more likely to address the cause of stigmatization, but it also may focus their attention on capturing their silent supporters. At low levels of stigma transfer, the debates about the industry are likely to happen more publicly. In this case, organizations may not have to actively address criticisms since their supporters create a buffer and instead these organizations offer opportunistic accountability.

Stigma and stigma transfer also matter in the broader social accountability context. As discussed earlier, the courts are a system for accountability. Prior studies have been interested in how organizational variables impact juror judgments. In the context of accounting, these studies are oriented toward audit liability judgments or the impact of organizational disclosures (as a form of procedural evidence) on juror judgments. In light of industry controversy, jurors may be less likely to side with an organization if there is a high chance of stigma transfer. Since Stuart (2023) finds that juror's assess lower punitive damages due to the affective influence of CSR disclosures, it could also be interesting for future research to examine how stigma—and

[33] Variety: "Human Rights Campaign Rejects Disney Donation 'Until Meaningful Action Is Taken' On 'Don't Say Gay' Bill" (Maas and Murphy 2022).
[34] New York Post: "Porn Site's Charity Donations Too Hot To Handle" (Fickenscher 2015).

especially stigma transfer—influences juror judgments and how stigma interacts with accounts of CSR.

At an even broader conceptualization of accountability, organizations provide benefits to society by redistributing wealth through job creation. Organizations with industry controversy may have to pay a premium in the labor market to offset the potential stigma transfer to employees. On top of the premium these organizations may be paying, they could be more likely to employ individuals who also have a stigma. In this way, organizations in controversial industries may provide an unexpected societal benefit in redistributing wealth to the more vulnerable populations that are often shunned in the formal markets.

4.2. Industry Controversy Domains

The construct of *industry controversy* is important for generating theoretical contributions, but there are still important variations within how industry controversy manifests given the broad range of industries that become controversial. As a final contribution, I create an Industry Controversy Domain by combining the theories discussed in the framework. The domain schema for industry controversy is provided in Figure 1. I do not provide classification for each controversial industry, but I provide exemplars that are discussed within their respective domain. More comprehensive classification is left to the work of future research.

Prior studies on controversial industries have noted that considerable heterogeneity exists among industries classified as controversial (Cai et al. 2012; Jo and Na 2012; Hmaittane et al. 2019) with a few studies even applying their own groupings (Kilian and Hennigs 2014; Vollero, Conte, Siano, and Covucci 2019; Song et al. 2020). Kilian and Hennigs (2014) rank industries by the perceived level of controversy, Vollero et al. (2019) group industries on whether the controversial concern is socially or environmentally[35] motivated, and Song et al. (2020) group industries on whether the industry is "morally corrupted" or "issue riddled." While these studies find variation across their groupings, none of these papers build theoretical arguments that can be used to predict patterns across the categorizations.

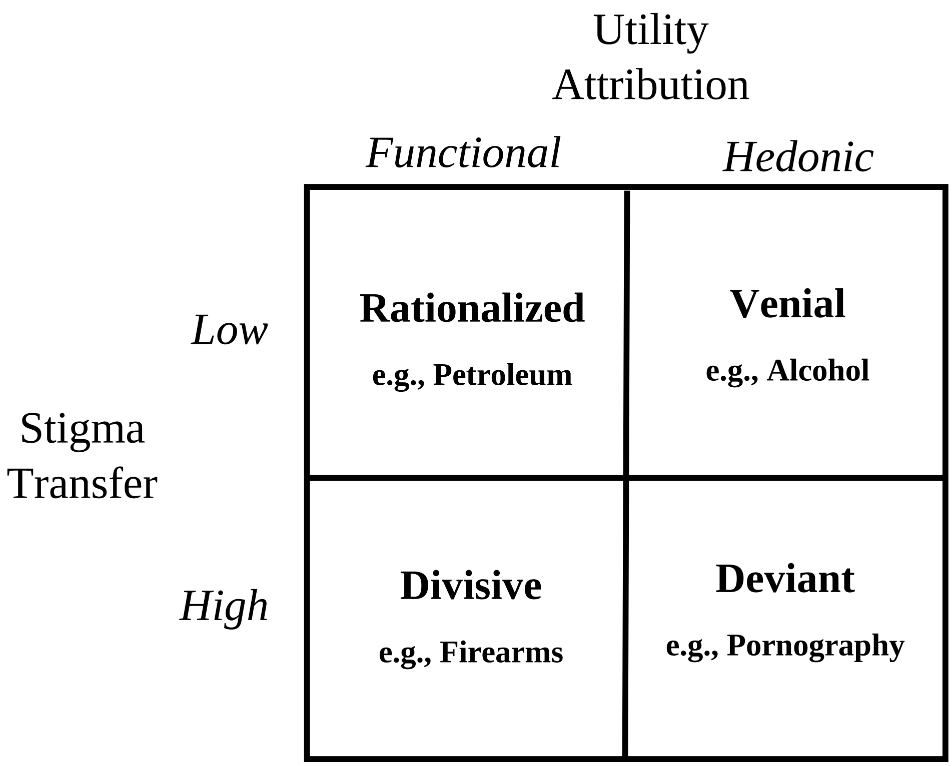

Figure 1: Industry Controversy Domains

4.2.1. Rationalized Controversy

Organizations in controversial industries with functional utility attribution and low stigma transfer are classified as possessing *rationalized controversy*. The products or services have a practical use in society and affiliation with these industries does not transfer significant stigma. Organizations in these industries are likely to be the most similar to organizations in traditional

[35] Environmentally sensitive industries (ESI) is a designation in the NAICS indicating industries that have significant impacts on the environment. This can be an important distinction to make in the study of social and environmental accounting since these industries can have different standards for reporting by standard setters, such as the GRI.

industries despite their attached controversy. As such, archival studies on controversial industries that include these industries should be cautious as these characteristics will make these organizations more prevalent as public corporations. If the data overrepresents this group, the findings may not generalize as broadly to the theory of industry controversy.

The petroleum industry is an exemplar of the rationalized controversy domain. Organizations in the petroleum industry face public scrutiny regarding the detrimental impact the industry has on climate and earth's non-renewable resources. Despite these concerns, modern society is heavily dependent and receives convenience from the petroleum industry which leads to low levels of stigma transfer. Petroleum is not entirely free from criticism,[36] but there is apathy in the opposition and its presence would be described by many as a 'necessary evil.'

Organizations may experience less scrutiny on their CSR and accountability given that society seeks justifications for this industry's existence. While some industries may seek to avoid bringing up their controversy, organizations with rationalized controversy can openly acknowledge the debate about the industry. In its Sustainability Report, ExxonMobil (2021) states that it plays "an important role in meeting society's need for energy and at the same time is committed to supporting efforts to mitigate the risk of climate change." The accountability of these organizations may even acknowledge the tradeoff that must be made. "Policy solutions to address climate change should be balanced, recognizing the increasing global demand for affordable energy, which is vital to addressing global poverty, education, health and energy security" (ExxonMobil 2021). This approach further represents the organized hypocrisy (Brunsson 1993) first examined in the petroleum industry by Cho et al. (2015).

[36] The Guardian: "Big Oil And Gas Kept A Dirty Secret For Decades. Now They May Pay the Price" (McGreal 2021).

Since prominent functional utility will likely correspond with significant dependence on the industry, creating pressure for accountability can be difficult. A large portion of society who recognize the problem do not have reasonable enough alternatives for the lost utility. Utilities providers (e.g., petroleum) invest significantly into clean and renewable energy to transition from one energy source provider to another once social or environmental pressures make it inevitable (Pickl 2019).[37] Stakeholders who can identify and promote alternatives that address lost utility will have the most significant impact for increasing pressures on organizations in these industries to attend to social obligations.

4.2.2. Divisive Controversy

Organizations in controversial industries with functional utility attribution and high stigma transfer illustrate *divisive controversy*. Though the products or services that these industries provide have practical use, affiliation with these industries produces a high amount of transfer of any associated stigma. While the functional utility can provide greater justification for arguments in support of the industry, perceived approval will subject proponents to stigma that can further polarize the difference of opinion.

The firearm industry is an exemplar of the divisive controversy domain. Organizations in the firearm industry experience controversy due to concerns about high rates of gun related violence. Similar to the petroleum industry, the firearm industry provides a significant functional utility in hunting and personal safety. Unlike the petroleum industry, the firearm industry has very prominent and polarizing pro- and anti-gun positions and openly engaging with firearms suggests advocating for the industry.

[37] The Washington Post: “Big Oil Talks ‘Transition’ But Perpetuates Petroleum, House Documents Say” (Mufson and Puko 2022).

Organizations in the firearm industry do not provide balanced accountability. These organizations are far more likely to attend to the accountability of their supporters as there is a shared identity. Discussing an annual firearm convention, Davidson (2003) comments on the shared convictions among customers and retailers. Many exhibitors displayed signs indicating they are as ‘pro-gun as their customers’ (Davidson 2003). “These firearm shows have carried with them a strong sense that the industry is under siege, that it needs to defend itself from social criticism” (Davidson 2003, 53). This strong sense of a shared identity will have a significant influence on how society, organizations, and stakeholders determine social obligations and respond to accountability.

Changes to accountability likely happen in the legal arena where political pressure can initiate action.[38] The polarization gives way to strong political movements, which are not observed to the same extent in the petroleum, alcohol, or pornography industries. For the firearms industry, the NRA is considered one of the most aggressive and enduring lobbying organizations in Washington (Davidson 2003).

4.2.3. Venial Controversy

Organizations in controversial industries with hedonic utility attribution and low stigma transfer experience *venial controversy*.[39] The products or services are intended for personal pleasure and affiliation with these industries does not result in significant transfer of any associated stigma. Significant social disapproval of these industries persists due to negative externalities typically associated with overindulgence, however products and services from these industries have achieved justification as an innocuous ‘bad habit.’

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[38] The Guardian: “Gun Crime Victims Are Holding The Firearms Industry Accountable – By Taking Them To Court” (McGreal 2022).

[39] Taken from Catholicism, venial describes sins that are ‘slight’ and ‘pardonable.’

The alcohol industry is an exemplar of the venial controversy domain. Organizations in the alcohol industry experience controversy due to concerns about addiction and alcohol-related diseases. The alcohol industry escapes much of the criticism for the problems with these products as most of the focus is oriented toward bringing awareness to the issue (i.e., alcoholism) than to discrediting the industry.[40]

Like the petroleum industry, there is little stigma transfer to organizations in these industries due to their prevalence in society. Unlike the petroleum industry, there is no pragmatic justification through functional utility. Approval (or indifference) of these industries is usually based on the idea of personal choice as there is far less rationalizing the necessity of the industry. Whereas Walmart was forced to address firearms in their stores or risk becoming embroiled in the firearm controversy,[41] any demands for Walmart to justify selling alcohol have not received such publicity.

Western society generally holds that governments should be limited in proscribing personal choice, so movements around venial controversy tend to focus on providing facts about potential harms. In their ESG Report, Anheuser-Busch (AB) InBev distances itself from responsibility for how individuals use its product and reminds stakeholders of their hedonic utility. "Beer is a part of celebrating life throughout the world and a major engine of economic activity. However, all products containing alcohol can be consumed in ways that cause harm" (AB InBev 2021). The focus is not on consuming alcohol, but that it is the way alcohol is consumed. AB InBev (2021) highlights that problem drinking is the result of social norms around drinking and accounts for their efforts to assist in changing these norms.

[40] United Press International: "Binge Drinking Can Have Lasting Consequences Even For Moderate Drinkers" (Norton 2022).
[41] Reuters: "Walmart Faces Pressure To Stop Gun Sales After Latest U.S. Mass Shooting" (Bose and Fares 2019).

Organizations with venial controversy experience less of a focus on alternatives since there is no functional purpose that will be left unaddressed. Interestingly though, many alcohol brands are increasing their non-alcoholic options. These non-alcoholic options are offered so individuals can enjoy the same beverage without intoxication. They can allow the sober and recovering to engage in the same social activities without suffering the stigma related to sobriety (Herman-Kinney and Kinney 2013; Romo and Obiol 2023). Accountability efforts leave the industry intact but seek to reduce associated harm to an acceptable level. These non-alcoholic options allow alcohol producers to acknowledge social obligations while maintaining their market share.

4.2.4. Deviant Controversy

Organizations in controversial industries with hedonic utility attribution and high stigma transfer exhibit *deviant controversy*. The products or services are intended for personal pleasure and affiliation with these industries has significant transfer of any associated stigma. Compared to the polarizing effect of high stigma transfer when there is functional utility (i.e., divisive controversy), the hedonic nature of these industries results in distance and silence in advocating for these industries.

The pornography industry is an exemplar of the deviant controversy domain. Organizations in the pornography industry experience controversy due to concerns about porn addiction and sexual exploitation. As noted earlier, the concerns about this industry are not often publicly debated, but it is undoubtedly controversial. Unlike the firearm industry, organizations in the pornography industry do not garner vocal advocates as most stakeholders want to distance themselves. Recently though, this industry has become much more visible through a highly publicized bid from BangBros for naming rights of the Miami Heat Arena[42] as well as through the success of OnlyFans.[43] Pornhub, a video-hosting platform for pornographic content, can influence public perception through publishing their Year in Review report which provides a breakdown of user activity such as the most search keywords in each state.[44]

Organizations in this industry even seek to distance themselves from the controversy. MindGeek, the parent company to most of the major pornographic streaming platforms, does not mention specifics of their platform content and advertises itself as an information technology company. Due to the high stigma transfer, this may be an attempt to separate their financial accounts from their finance-generating activities. Alternately, when addressing accountability, MindGeek connects their CSR practices to their platform content. Pornhub (one of the platforms owned by MindGeek) has a Pornhub Cares initiative and runs campaigns such as Pornhub Gives America Wood which planted trees for every video view.[45] This could be another example of 'stigma exhibition' (Campana et al. 2022).

Holding these organizations accountable can be difficult given the lack of public discussion.[46] Notably, on two separate occasions Pornhub and OnlyFans faced pressure from major credit card companies to improve their oversight and controls.[47,48] Surprisingly, this pressure for accountability was received differently for each organization. Pornhub scrubbed any content that was not posted by a verified user and OnlyFans initially indicated that they would

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[42] Forbes: "BangBros Bids $10 Million For Miami Heat Arena Naming Rights: Oddsmakers Chime In" (Jones 2019).
[43] The Guardian: "Everyone And Their Mum Is On It: OnlyFans Booms In Popularity During The Pandemic" (Boseley 2020).
[44] Out Magazine: "Pornhub's Yearly Review Shows Increase In Trans Porn Searches" (Stillman 2022).
[45] Huffington Post: "Pornhub Wants To 'Give America Wood,' Literally" (Visser 2014).
[46] The New Yorker: "The Fight To Hold Pornhub Accountable" (Kolhatkar 2022).
[47] CNN Business: "Mastercard, Visa, and Discover Cut Ties With Pornhub Following Allegations Of Child Abuse" (Goodwin 2020).
[48] Newsweek: "Why Is OnlyFans Banning Content? Visa and Mastercard Blamed For Shock Move" (Veljanovski 2021).

not allow pornographic content. Pornhub was met with (relative) approval whereas OnlyFans faced a significant backlash due to an unexpected groundswell of support from sex work advocates.

5. Conclusion

Organizations are dependent on the societies they operate in, yet there are limited mechanisms that hold organizations accountable to society. SEA has developed as a means for providing this accountability, but research is needed that can help clarify how these obligations and responsibilities are negotiated through accountability. In this paper, I argue for studying industry controversy as a way to examine how CSR and accountability develop when social contracts are contested. I provide an overview of the theoretical aspects of industry controversy and then explore how this interacts with accountability. This paper provides a novel contribution to research and can lead to insights that contribute to practice.

The definition and framework have broad applicability to the organizational sciences beyond accounting and accountability. The prior literature across disciplines is fragmented and specified criteria and theories can help future research contribute in a more systematic way. This can specifically aid in developing more robust research using qualitative and experimental methods as these studies will typically only review organizations in one or two industries. The future research in these areas will also make contributions to the larger sociological discussion of contested markets.

Accounting research, and specifically SEA research, can provide meaningful insights on how accountability is captured in CSR performance and accounts. Various issues have been discussed in this paper suggesting ways in which industry controversy and accountability interact. Considering that these industries overlap with other academic areas (e.g., ecology, criminology, addiction studies), SEA researchers should also consider how these disciplines inform our understanding of social obligation and leverage interdisciplinary methodologies. This research can contribute to practice as ESG ratings agencies now include a 'controversy' rating. Research in this area could specifically contribute to practice for suggesting whether the measures used by ESG rating agencies are good measures for controversy and whether it is an effective means of accountability.

In conclusion, I would also like to note that concerns about stigma transfer are even evident in academic research. Topics considered taboo, such as sex work or pornography, are researched less often due to the perception that the stigma of the issue will transfer to the researcher (Voss 2012; Hudson and Okhuysen 2014). This risk may explain the lack of research on the industries discussed in this paper. Knowledge exists outside of our comfort zone and studying taboo topics, especially at the intersection of business and economic markets, can make meaningful contributions.

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STUDY 2: INVESTOR RESPONSE TO CONTROVERSY QUANTIFICATION UNDER EVENT OR CORE STIGMA

1. Introduction

A growing number of non-professional investors[49] aim to align their investment portfolio with their personal values (Pasewark and Riley 2010; Singh, Mittal, Mehta, and Singla 2020). Organizational controversies can occur, however, that result in a stigma that challenges this perceived alignment (Devers, Dewett, Meshina, and Belsito 2009). Although there has been little research exploring how stigmas from organizational controversies influence investor behavior, environmental, social, and governance (ESG) ratings agencies have also begun issuing controversy scores intended to quantify the severity of an organization's controversy (MSCI 2020; Sustainalytics 2022). In the present study, I examine how investor judgment and decision-making is affected by the stigma produced from a controversy and how the controversy scores given to that organization influences these decisions.

Two types of organizational stigma have been documented in the extant literature (Hudson 2008). Stigmas can occur due to non-routine events, such as industrial accidents, or routine practices, such as producing tobacco, with the resulting stigma being defined as event stigma and core stigma, respectively (Hudson 2008). The potential transfer of stigma to those who associate with the stigmatized can result in individuals distancing themselves from the stigmatized entity (Goffman 1963/1986, Hudson and Okhuysen 2009). Overall, investors may be less likely to invest in organizations with stigma but may respond differently to these different types of organizational stigma. Through expectancy violation theory (EVT), I predict that

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[49] Non-professional (or retail) investors are those who invest their own money; conversely, professional (or institutional) investors are those who invest money on the behalf of others. While non-professional investors make up a smaller portion of the market, services such as Robinhood make investing more accessible and put investment decisions in the hands of the individual. This study provides insight on the judgment and decision-making of non-professional investors who will hereafter just be referred to as 'investors' unless distinctions need to be made.

investors will have a lower willingness to invest in an organization when the controversy results in an event stigma versus a core stigma.

Further, investors are using various non-financial indicators to better understand the broader social and environmental impact of an organization (Venkataramani 2021). Controversy scores provided by MSCI (2020) and Sustainalytics (2022) are intended to quantify the impact that negative incidents may have on the company's operations, as well as the impact to stakeholders and the environment. Quantified information can be expected to be particularly influential in investor decision-making since there is a strong orientation toward numbers when making business decisions (Denis, Langley, and Rouleau 2006; Vollmer, Mennicken, and Preda 2009; Micheli and Mari 2014) and quantification can significantly influence the understanding and conceptualization of the quantified construct (Espeland and Stevens 2008; Järvinen, Laine, Hyvönen, and Kantola 2022). As such, I predict that controversy scores will have a significant influence on investors' investment decisions and that the scores will interact with stigma such that higher controversy scores will have a more pronounced effect for a core stigmatized organization.

To provide process evidence on how these stigmas influence investor decision-making, I test the proposition by Devers et al. (2009) that responses to organizational stigma are informed by how responsible a stakeholder holds the organization for the stigma. Considering that core stigma is the result of a routine practice that is most often shared across other organizations in the same industry (Hudson 2008), I expect that investors will diffuse responsibility for the core stigma across the industry. I posit that investors will assess more responsibility for the controversy when there is an event stigma than a core stigma and that this perceived responsibility will mediate the relationship between organizational stigma and investors' willingness to invest.

I developed a 2 (*Stigma*: event or core) x 2 (*Score*: high or low) experiment where participants assumed the role of a prospective investor who is evaluating a potential investment in a hypothetical information technology company called VidTube. The controversy score was manipulated between a high score and a low score. Stigma was manipulated by informing participants that the controversy is the result of a controversial nonroutine event or a feature of a controversial industry. After reading through the information about VidTube, participants responded to questions related to their willingness to invest and VidTube's responsibility for the controversy.

From the experiment results, I do not find direct support for the main effect of *Stigma* on *Willingness to Invest*. While directionally consistent with the prediction, the difference in willingness to invest is not significant between event stigma and core stigma. I do find support for the main effect of *Score* on *Willingness to Invest*, such that there is a lower willingness to invest when there is a high controversy score. I also find marginal significance for the interaction between *Stigma* and *Score* suggesting that high controversy scores have a greater negative impact on willingness to invest under core stigma. Finally, in the moderated mediation model I find support that the joint effect of stigma type and controversy score on an investor's willingness to invest operates through the perceived responsibility for the controversy.

This study provides a contribution to multiple research streams. First, this study contributes to building a theory of organizational stigma (Devers et al. 2009). I test one of the propositions put forth by Devers et al. (2009) as well as provide further insight into developing a theory of organizational stigma that differentiates between event and core stigma (Hudson 2008).

While there are still many open questions as to how these two stigmas compare to each other, this study adds to the evidence that stakeholders are less punitive to organizations with a core stigma (Kassinis, Kay, Papagiannakis, and Vlachos 2022). Second, the effects of quantifying complex social and environmental constructs are a topic of current debate (Billio, Costola, Hristova, Latino, and Pelizzon 2021; Christensen, Serafeim, and Sikochi 2022). Though controversy scores are relatively new, they are readily accessible to nonprofessional investors through services like Yahoo Finance. While this study cannot provide normative insights into the optimal solution when quantifying this construct, it shows that these scores may have different effects under different controversies which should be considered both by practitioners and academics.

Lastly, this study contributes to our understanding of accountability and social and environmental accounting (Lennard 2023 [Study 1]). Stakeholders can influence the accountability of organizations through their investment or divestment from that organization. If investment decisions are influenced by an organization’s violation of a social obligation, organizations will become more attentive to how their business operations align with societal values. The results of this study suggest that shareholders may exert greater pressure for an organization to address issues related to event stigma than core stigma. This pressure can have meaningful consequences when considering how organizations, specifically those in controversial industries, are held accountable for addressing their social obligations (Lennard 2023 [Study 1]).

The rest of the paper is arranged as follows. Section 2 provides a review of background literature and the hypotheses development. Section 3 describes the experimental design used to test these hypotheses. Section 4 explains the analyses and results of the tests of hypotheses. Section 5 provides a discussion and conclusion of the contributions of this study.

2. Background & Hypothesis Development

Prior studies support the expectation that investors will invest less in organizations that experience an incident or practice that gives rise to a controversy (Hong and Kacperczyk 2009; Pasewark and Riley 2010; Liu, Lu, and Veenstra 2014; Carpentier and Suret 2021). Research by *Société Générale* shows that 75% of companies that experience a major controversy saw their share values lower by an average of 12% in the subsequent two years (Stevens 2020). Despite this evidence, very little research has explored the ways in which investor behavior is influenced by organizational controversies.

Prior studies suggest that social norms have an influence on investments in controversial industries (Liu et al. 2014) and that investors often aim to align their investment with their personal values (Pasewark and Riley 2010). There is currently no theory of organizational controversies, but related theories can provide insight into this phenomenon (Lennard 2023 [Study 1]). When an organization experiences a controversy, there are likely strong social norms that stigmatize the organization. This organizational stigma can influence the perceived alignment between stakeholders and organizations (Devers et al. 2009).

2.1. Organizational Stigma

Stigma research dates back to Goffman (1963/1986) and is used to explain how social stigmas develop in societies through their effects not only on the stigmatized, but also on those around the stigmatized (Jones et al. 1984; Major and O'Brien 2005). Studies in sociology and psychology focus on social stigmas, such as those arising from tobacco use (Castaldelli-Maia, Ventriglio, and Bhugra 2015), abortions (Hanschmidt, Linde, Hilbert, Riedel-Heller, and

Kersting 2016), HIV status (Earnshaw and Chaudoir 2009), sex work (Benoit, Jansson, Smith, and Flagg 2017), or being transgender (Hughto, Reisner, and Pachankis 2015).

Organizations also experience stigma, but the research stream on organizational stigma is still emerging (Hudson, Patterson, Roulet, Helms, and Elsbach 2022). Stigma was brought into the organizational literature most notably through a study by Sutton and Callahan (1987) who examined how CEOs experience stigma transfer from bankruptcy of the organization. Later, Devers et al. (2009) developed a theory of organizational stigma and formally defined it as "a label that evokes a collective stakeholder group-specific perception that an organization possesses a fundamental, deep-seated flaw that deindividuates and discredits the organization" (Devers et al. 2009, 155). Studies have shown organizational stigma can negatively impact the legitimacy of professions (Neu and Wright 1992), issuance of corporate social responsibility reports (Grougiou, Dedoulis, and Leventis 2016), and responses from institutional investors (Carpentier and Suret 2021).

The organizational stigma literature differentiates between two types of stigmas (Hoffman and Ocasio 2001; Hudson 2008; Zhang, Wang, Toubiana, and Greenwood 2021; Lennard 2023 [Study 1]). These types are termed event stigma and core stigma (Hudson 2008). Event stigmas are the result of "discrete, anomalous, episodic events" (Hudson 2008, 253). These types of organizational stigmas arise from cybersecurity breaches, sexual harassment allegations, and financial scandals. Much of the literature on scandal and crisis (Milburn, Schuler, and Watman 1983; Coombs and Holladay 2023) has indirectly studied how organizations and stakeholders respond to event stigmas.

Core stigma "is the result of a negative social evaluation by some audience(s) of an organization because of some core organizational attribute, such as core routines, core outputs, and/or core customers" (Hudson 2008, 253). Core stigma exists in the so-called sin industries, such as tobacco and pornography, and also has been studied in settings such as men's bathhouses (Hudson and Okhuysen 2009), mixed-martial arts (MMA) (Helms and Patterson 2014), and drag shows (Campana, Duffy, and Micheli 2022). While it is possible that a core stigma is exclusive to a single organization, it will most often result from a feature shared across organizations in an industry (Hudson 2008).

The extant literature on these stigmas provides strong evidence that they are distinct phenomena but has not been developed enough to provide much insight for theorizing the different influences these two stigmas have on stakeholder behavior. One of the most notable differences between event and core stigma is the routineness of the stigmatized practice. Expectancies (or stereotypes) are often discussed in the stigma literature since stigma is deindividuating (i.e., group traits are assigned to the stigmatized) (Jones et al. 1984; Major and O'Brien 2005; Devers et al. 2009). As practices in an organization become more routine, there is likely to be a greater expectation for them. This can result in different expectations being formed due to the routineness of core and event stigma.

2.1.1. Expectancy Violation Theory

EVT was originally developed to explain violations of expectations about personal space (Burgoon and Jones 1976). This theory has since been extended to explain expectations in communication and interpersonal relationships broadly defined (Burgoon and LePoire 1993; Burgoon 2016). EVT posits that individuals form "enduring cognitions about the behavior anticipated of others" (i.e., *expectations*; Burgoon 2016, 2). These expectations are initially formed by pervasive social norms though over time may be individuated based on prior experiences and unique characteristics (Burgoon 2016). After expectations have been formed, these expectations will either be met (i.e., *expectancy confirmation*) or unmet (i.e., *expectancy violation*) in any subsequent interactions (Burgoon 2016). Individuals, in turn, have greater reactions to a violation of expectations than a confirmation of expectations (Burgoon 2016).[50]

Given that core stigmas will most often develop from the routine practices of a particular industry, investors will experience an expectancy confirmation when the controversy is related to the core stigma. Kassinis et al. (2022) find that organizations with a preexisting stigma (core stigma) have a buffer against market consequences of misconduct (event stigma) since there is an expectation that these organizations engage in bad behavior. Consequently, when the controversy is related to an event stigma (when no pre-existing stigma is present), investors will experience an expectancy violation when presented with information about the controversy. As EVT predicts that there are greater reactions to violations than confirmations, I posit that investors will report a lower willingness to invest in an organization experiencing event stigma than core stigma.

H1: Willingness to invest will be lower under event stigma than under core stigma.

2.2. Quantification of Stigma

Investors have various non-financial indicators available to them to help identify investments that align with their personal values. Socially responsible investment (SRI) screens and environmental, social, and governance (ESG) ratings are used by investors to identify organizations that are addressing their social obligations. A Gartner survey finds that 85% of investors report that they consider ESG factors when evaluating an investment (Venkataramani

[50] It is also important to note that there is a marked difference between expectations and desires. Stakeholders may desire for no stigma to exist but still have the expectation that it will exist. Additionally, EVT discusses *communicator reward valence*, which involves whether the individual with the expectation wants a violation or confirmation (Burgoon 2016). For both situations in this study, investors will likely have a negative valence as they likely would prefer for no stigma to exist in the organization.

2021) and over $2 trillion is held in ESG-focused funds (Kishan 2022). The attention that is being given to a growing number of non-financial indicators can have significant consequences on how investment decisions are being made.

MSCI (2020) and Sustainalytics (2022) have added controversy scores to these non-financial indicators which are intended to help investors identify "companies involved in incidents and events that may pose a business or reputation risk to a company due to the potential impact on stakeholders or the environment" (Sustainalytics 2022, 1). Sustainalytics (2021) claims that these assigned scores are constructed by considering (1) the severity of the incident, (2) the degree of accountability, (3) the degree of exceptionality, and (4) reputational risk. Organizations are then assigned a score on a scale from 1 to 5, with 5 indicating severe controversy (Sustainalytics 2022).[51]

The calculation of the controversy score is not a transparent process and, as such, the score that will be assigned to various controversies is difficult to predict ex ante. An article published for Aviva investors warns that the controversy scores are not able to provide sufficient nuance to the incidents that have occurred in organizations, and thus may not provide decision relevant information and unduly reduce investments (AIQ 2021). Since it is difficult to identify what score a particular controversy would actually receive, I examine the effects of both high and low scores under event and core stigma.

Quantification is a complex sociological phenomenon that influences how individuals conceptualize the world around them (Espeland and Stevens 2008; Järvinen et al. 2022). The process of ratings and rankings, such as the rankings used for universities, have been shown to

[51] Various ratings agencies provide controversy scores (e.g., Bloomberg, MSCI), but each has developed different ratings scales. I focus on Sustainalytics because Yahoo Finance publishes these scores and will likely be the most visible to non-professional investors.

have a significant influence on how the organizations are assessed (Espeland and Saunders 2007). The quantification of environmental and social performance through ESG ratings is a current topic of discussion as there are significant differences in the quantifications from different ratings agencies (Billio et al. 2021; Christensen et al. 2022).

The literature on quantification supports two different predictions about investor behavior regarding controversy scores. On one hand, prior research indicates that when an individual feels uncertain about their own understanding of a difficult concept, unexpectedly precise information can increase uncertainty and cause additional cognitive difficulties (Thomas, Simon, and Kadiyali 2010; Thomas and Park 2014). Du, Budescu, Shelly, and Omer (2011) show that investors prefer a match between the uncertainty of the environment and numerical precision concerning earnings forecasts (i.e., more uncertain environments require less precise numbers). A score of the severity of a controversy may be perceived by an investor as a precise number for an imprecise concept and could increase variation in investment decisions as investors have difficulty reconciling the precise number assigned to the controversy and their own interpretation of the controversy.

On the other hand, the importance of numbers in business decisions is well documented (Power 2004; Denis, Langley, and Rouleau 2006; Vollmer, Mennicken, and Preda 2009; Micheli and Mari 2014). Quantifiable information is perceived as more rational and instrumental (Power 2004) and Kadous, Koonce, and Towry (2005) demonstrate that quantification increases the persuasiveness of information. Since these controversy scores are provided by third-party agencies that supposedly have more insight on the specifics of the controversy, I expect these scores provide investors with justification for how others, particularly an agency with authority, have assessed the controversy. Given the preference for quantitative information in market settings, I expect that investors will substitute their intuitive responses to stigma for the controversy score. This will result in an inverse relationship between the quantified severity of the controversy and investors' willingness to invest.

H2: Willingness to invest will decrease as controversy scores increase.

The same controversy scores assigned in different organizational situations should indicate similar levels of risk, theoretically. Since investors are not provided with any further explanation for the assigned scores, investors may interpret the scores differently under event stigma and core stigma. While the predicted main effect of controversy scores is that as the score increases willingness to invest will decrease, I also expect that controversy scores will interact with stigma type. I posit that there will be a more pronounced effect of high controversy scores when there is core stigma.

There are two reasons to expect high controversy scores to have a greater negative effect under core stigma. First, considering the earlier prediction that expectancy violation under event stigma will result in a lower willingness to invest, higher controversy scores may have less influence when there is an event stigma because investors already display a lower willingness to invest (i.e., a floor effect will occur with event stigma). Second, the expectations formed around core stigma cause investors to perceive controversies as less severe (Kassinis et al. 2022). While the industry may be considered controversial, the persistence of the industry in the market could suggest to investors that the societal risks of this industry have been accepted. A third-party evaluation that indicates a high severity could violate the investor's expectations about the controversy, causing a more significant drop in willingness to invest. Figure 2 shows the predicted ordinal interaction.

H3: The effect of a high controversy score on willingness to invest will be more pronounced under core stigma (versus event stigma).

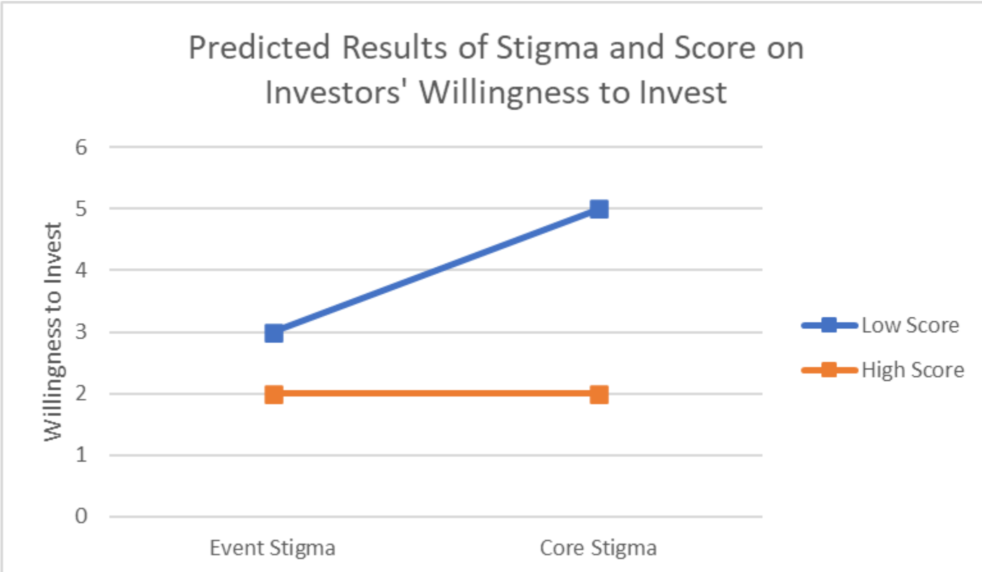

Figure 2: Predicted Results

2.3. Attribution Theory

Lastly, I aim to provide process evidence for how stigma influences investor behavior. The most relevant work for predicting how investors will respond to stigmatized organizations comes from Devers et al. (2009). In developing a theory of organizational stigma, Devers et al. (2009) presents a set of proposals for anticipating the process through which stakeholders respond to organizational stigma. Devers et al. (2009) propose that the perceived responsibility or controllability for a stigmatized practice will increase perceived incongruence between the stakeholder's and the organization's values.

Attribution theory is used within the psychology literature to explain how individuals attribute intentions to another's behavior, most notably to explain when responsibility for successes or failures are attributed to external or internal factors (Heider 1958; Fincham and Jaspars 1980). Studies of attribution in social psychology identify three dimensions that determine how attributions are made about another person: locus of causality, stability, and controllability (Weiner 1985). Attribution theory has occasionally been studied in organization sciences and has been used to explain leader-member relationships, reward and punishment decisions, and performance (Harvey, Madison, Martinko, Crook, and Crook 2014; Martinko and Mackey 2019).

In the crisis communication literature, attribution theory has been extended to explain the attributions that stakeholders (e.g., consumers) make about organizations (Coombs 2007). In contrast with the attribution dimensions developed in the social psychology literature (Weiner 1985), Brown and Ki (2013) develop three alternate dimensions for measuring how individuals attribute the responsibility for a crisis to an organization. Their dimensions of organizational attribution consist of intentionality, accountability, and locality (controllability) (Brown and Ki 2013). Within the crisis literature, studies have investigated the attributional differences between crisis events where the organization is a victim, an accident occurred, or the incident is perceived to be preventable (Coombs 2007; Brown and Ki 2013). This research suggests that stakeholders will attribute more responsibility to the organization in preventable situations than when there is an accident or the organization is a victim.

In the case of nonroutine events (i.e., event stigma), individuals may consider these events to be the direct result of organizational action or inaction, but there is little evidence for how these attributions compare when the stigmatized practice is routine across an industry (i.e., core stigma). Given that the stigma will be perceived to be shared by many organizations in that industry, responsibility may be diffused away from a particular organization. All else held equal, I expect that stakeholders will hold an organization less responsible for a stigmatized practice that is shared across an industry compared to those where the stigmatized practice is the result of a nonroutine event. As such, I posit that investors will attribute more responsibility to the organization when the stigmatized practice is a nonroutine event (i.e., event stigma) versus an industry-level feature (i.e., core stigma) and that the perceived responsibility will mediate the relationship between stigma type and willingness to invest.

H4a: Perceived responsibility for controversy will be greater under event stigma than under core stigma.

H4b: The effect of stigma on willingness to invest will be mediated through perceived responsibility for controversy.

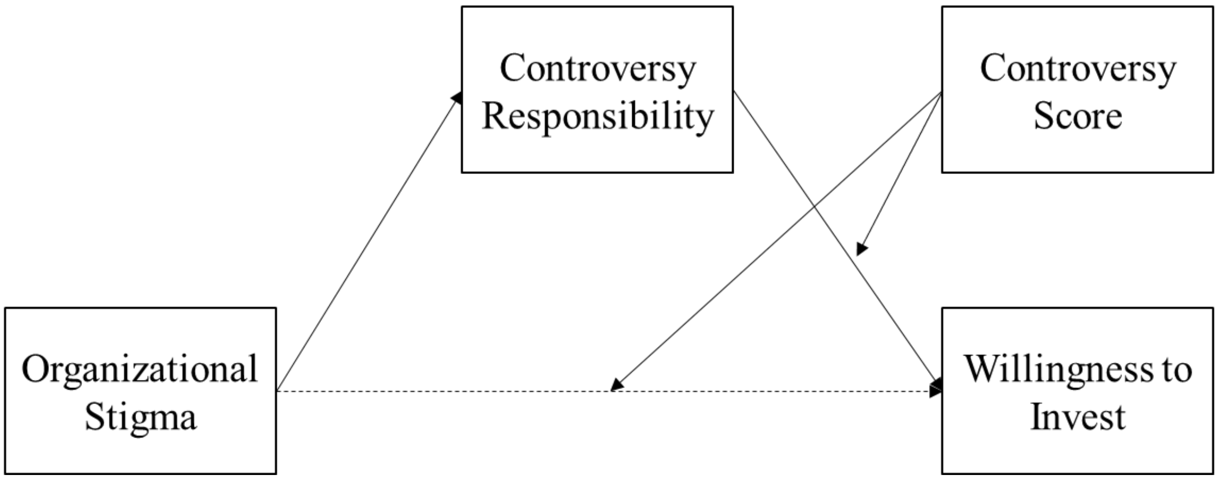

Figure 3: Predicted Model

3. Experimental Methods

I situated this experiment in a setting where I could capture the stigma around pornography (Voss 2012; Voss 2015).[52] The internet has become the dominant distribution source for pornography creating concerns about access to this media by adolescents (Brown and L'Engle 2009; Collins, Martino, and Shaw 2011). Information technology businesses that host user content must contend with the prevalence of pornography on the internet. Different platforms have taken very different approaches to managing this situation. Some of these platforms have expressly prohibited explicit content (e.g., Facebook or YouTube), some have

[52] It is not my intention for this paper to pass judgment on the adult entertainment industry; rather, pornography is one of the most sensitive stigmas given that it is rarely openly discussed while still being an incredibly profitable industry. The social stigma around the pornography industry will be more salient and more consistently experienced than other controversy which makes it easier to detect stigma responses in an experimental setting.

allowed explicit content but require explicit content filters (e.g., Twitter or Reddit), and some have chosen to deal almost exclusively with pornographic content, either inadvertently (e.g., OnlyFans) or expressly (e.g., Pornhub). While companies like YouTube or Twitter address explicit content in their community guidelines, if an issue were to arise concerning pornography on their platform, it would be a company-specific, non-routine event (i.e., event stigma would be present). Alternately, the hosting platforms such as OnlyFans or Pornhub are always subject to the social controversy that is inherent in organizations that disseminate pornography (i.e., core stigma would be present). I chose this setting as the differences in event and core stigma can often be interconnected with other variables making it difficult to isolate variables for an experimental study. As a result of modern technology, pornography provides a realistic scenario to achieve sufficient external validity while still isolating particular variables to help ensure sufficient internal validity.

3.1. Participants

I recruited 267 non-professional investors through Prolific.[53] I used the built in screening questions from Prolific to only invite participants if they met the criteria of (1) having made investments (either personal or through employment) in the common stock or shares of a company, and (2) having responded that they ‘sometimes,’ ‘most of the time,’ or ‘always’ examine a company’s financial statements as part of their evaluation. This is in line with other non-professional investor studies (Elliott, Jackson, Peecher, and White 2014; Elliott et al. 2017; Hux 2021) and should ensure that this population has adequate knowledge to provide investment decisions consistent with nonprofessional investors (Libby, Bloomfield, and Nelson 2002; Krische 2019). About 6.5% of Prolific workers were eligible for this study. Each participant

[53] I received approval from the IRB of the institution at which the experiment took place. See Appendix E.

received $3.00 for completing the study. The participants' average (median) completion time was 6.44 minutes (4.53 minutes), resulting in an equivalent hourly rate of $27.95 ($39.70).

Ages ranged from 19 to 76 with the mean age being 38. Of the total participants, 65.9% were male. Regarding political affiliation, 50.9% identified as Liberal, 29.2% as Moderate, and 18.7% as Conservative. The employment status was reported as 70.8% Full Time, and 13.2% Part Time. Only 8.6% of participants reported a household income under $25,000, while 62.2% had a household income between $25,001 and $100,000, and 28% had a household income over $100,000. In terms of investing experience, 12.4% indicated having less than one year of investing experience, 78% indicated between 1 and 20 years of investing experience, and 9.7% indicated over 20 years of investing experience.[54] The complete breakdown of demographic information is provided in Appendix A.

3.2. Experimental Procedures

To test the hypotheses, I conducted a 2 (*Stigma*) x 2 (*Score*) between-subject experiment. Participants were randomly assigned to one of four conditions and asked to assume the role of a prospective investor who has $10,000 in a money market account that has a 1.25% annual percentage yield (APY). Participants in all conditions were presented with a prospective investment in VidTube, an information technology company that operates a video hosting platform.[55] The background language used to describe VidTube as an information technology company is consistent with that used by MindGeek, the information technology company that

[54] A total of 8 participants responded that they have zero years of experience investing even though Prolific screening questions were used with the intention of only inviting participants who have investing experience. All inferences are consistent whether these participants are included or excluded. All reported results include these participants.
[55] Even though there are few publicly traded adult entertainment companies, this setting should not be entirely unrealistic to participants. Playboy was publicly traded until 2011 and went public again in 2021 as PLBY Group Inc. Additionally, RCI Hospitality Holdings is a publicly traded company that owns and operates gentlemen's clubs. OnlyFans actively pursues venture capital to issue an IPO (Zilber 2022). Any limitation to external validity from this design choice likely biases against my hypotheses.

operates Pornhub.[56] All conditions were given identical financial information that is generally positive but is not such a positive signal that it may override responses to social norms about stigma (Liu et al. 2014). Participants were then shown the firm's controversy score (High/Low *Score*). After that, participants were given an excerpt of a news article that further expands on the controversy, explaining it as a nonroutine incident for VidTube (Event *Stigma*) or as an inherent externality of the industry's business model (Core *Stigma*).[57]

3.3. Independent Variables

Stigma was manipulated between Event *Stigma* and Core *Stigma* (see Appendix B for the stigma manipulation). In addition to background information describing an information technology company, participants were provided with a news article that details whether this company is trying to manage explicit content on their platform or this company's business model is hosting pornographic videos on their platform. In both conditions, the news article began by explaining the controversy around internet pornography and an activist group that has brought attention to children's exposure to pornography through video sharing platforms. In the Event *Stigma* condition, the article explained that VidTube is a household streaming platform with community guidelines prohibiting explicit content, yet they are currently facing a controversy about explicit content being shared on their platform. In the Core *Stigma* condition, the article explained that VidTube is a pornography streaming platform and is often subject to debates about access to internet pornography. In both conditions, the article ended with a direct quote

[56] https://www.mindgeek.com

[57] While order effects may occur here, I did not counterbalance the presentation of the information as this is the most natural sequence for these decisions to occur. Prospective investors would see financial information and the controversy score and then may seek out news information about the controversy. It would seem less likely that the average non-professional investor would read about a controversial event in a news article and then go seek out an investment in that organization.

from a VidTube spokesperson indicating that they will be reviewing the controls they have in place.

Controversy Score was manipulated as either High *Score* or Low *Score* (see Appendix C for the Controversy Score manipulations).[58] Participants were also provided with a brief description of controversy scores consistent with the information provided on Yahoo Finance.[59] The scores used by Yahoo Finance are issued by Sustainalytics and range from 0 (no controversy) to 5 (severe controversy). Participants were given a report that showed a score of 4 (High *Score*) or 2 (Low *Score*). A scale indicating where this organization falls within the range of scores was included in the report; this is consistent with the presentation of controversy scores on Yahoo Finance.

3.4. Dependent and Process Variables

3.4.1. Willingness to Invest

Following prior work, such as Elliott et al. (2017), I measured *Willingness to Invest* using three separate questions. First, participants were asked: "In increments of $1,000, how much of the $10,000 available for investment would you allocate to VidTube?" Participants responded on an 11-point scale with endpoints $0 and $10,000. Second, participants were asked: "How attractive is VidTube as a potential investment?" Responses were given on an 11-point scale with endpoints 1 ("Not at all attractive") and 11 ("Very attractive"). Third, participants were asked

[58] I also collected 132 observations for a control condition where participants were not provided with any Controversy Score. Participants only saw the financial information and the news article about the controversy (event vs. core stigma). Tests of H1, H4a, and H4b in the control condition are consistent with results in the reported sample. When an ANOVA is run comparing the Absent *Score* condition with the Low *Score* condition, there is no significant main effect for *Score* (untabulated). This suggests that investors do not respond differently to a low score than to no score.

[59] I use the term 'score' throughout the paper but, within the experiment, this information was labeled as a Controversy Level. For the instrument, I used Controversy Level to maintain external validity in the presentation of this information for non-professional investors since this is how Yahoo Finance labels the information. While there may be theoretical differences in the academic literature between scores and levels, I do not expect the terminology to make a difference in how participants interpreted the information.

"How risky is an investment in VidTube?" Responses were given on a reverse coded 11-point scale with endpoints 1 ("Not at all risky") and 11 ("Extremely risky"). A factor analysis was run on these responses which indicate there is one factor. Cronbach's alpha is 0.80. These responses were made into a composite variable for *Willingness to Invest*.

3.4.2. Controversy Responsibility

The Crisis Communication Responsibility scale (Brown and Ki 2013) was developed by considering the dimensions of attributions: intentionality, accountability, and locality. In the scenario presented, intentionality is held constant between the event and core stigma manipulation (i.e., neither situation was intentionally caused), thus these scale questions are not included.[60] All questions were measured on a 7-point scale where 1 = "Strongly disagree" and 7 = "Strongly agree" with the statements provided. Participants responded to six statements for accountability and three statements for locality. This scale was validated in the crisis communication literature by Brown and Ki (2013).

For all questions in the scale, a higher [lower] response would indicate an assessment of higher [lower] responsibility for the controversy. A Principal Component Factor Analysis indicated two factors, but there is significant cross-loading (see Appendix D). As I make no independent predictions between the two constructs of Accountability and Locality, I combined the responses to create a composite variable of *Controversy Responsibility*. The *Controversy Responsibility* scale has a Cronbach's Alpha of 0.91.

[60] Additionally, the scales for Intentionality refer to "someone" within the organization intentionally causing the issue. Since the article does not provide information on a "someone" in the organization (except the spokesperson), these scales were not included to avoid any potential confusion.

4. Results

4.1. Effects of Stigma and Score on Willingness to Invest

H1 predicts that willingness to invest will be lower under event stigma than core stigma. The descriptive statistics and results of ANOVA for *Willingness to Invest* by *Stigma* and *Score* are shown in Table 3. Consistent with the prediction in H1, Panel A shows that the mean for *Willingness to Invest* is lower in the Event *Stigma* condition than in the Core *Stigma* condition (3.68 [1.89] versus 3.90 [2.04]). While directionally consistent with the hypothesis, the results of the ANOVA in Panel B show that there is no significant difference in *Willingness to Invest* between Event *Stigma* and Core *Stigma* (F[1, 263] = 0.79, $p = 0.188$, one-tailed). Evidence for a direct impact of expectancy violation/confirmation from stigma impacting willingness to invest is not found. Thus, H1 is not supported.

H2 predicts that willingness to invest will be lower when a controversy score is high (versus low). The ANOVA does show that *Willingness to Invest* is significantly lower when *Score* is High (4.34 [1.98] versus 3.26 [1.80], F[1, 263] = 21.31, $p < 0.001$, one-tailed). Participants assessment of willingness to invest is significantly impacted by quantifying the severity of controversy. Thus, H2 is supported.

H3 predicts an interaction between *Stigma* and *Score* wherein there is a greater reduction in willingness to invest when an organization with core stigma is provided with a high score. The results of the ANOVA show marginal significance in the interaction (F[1, 263] = 1.78, $p = 0.092$, one-tailed) Follow-up simple effects in Panel C show that there is a significant effect of *Score* when *Stigma* is Event (F[1, 263] = 5.29, $p = 0.011$, one-tailed) and a stronger effect of *Score* when *Stigma* is Core (F[1, 263] = 18.04, $p < 0.001$, one-tailed). Thus, there is support for H3.

Table 3: Descriptive Statistics and Test of Willingness to Invest

Panel A: Descriptive Statistics for Willingness to Invest - Mean (SD)

	Event Stigma	Core Stigma	Total
Low Score	4.074 (1.993) n=63	4.588 (1.950) n=68	4.341 (1.980) n=131
High Score	3.314 (1.715) n=68	3.211 (1.901) n=68	3.262 (1.805) n=136
Total	3.679 (1.886) n=131	3.900 (2.039) n=136	3.792 (1.965) n=267

Panel B: ANOVA Results for Willingness to Invest

	SS	df	MS	F	*p*-value
Stigma	2.819	1	2.819	0.788	**0.188**
Score	76.18	1	76.182	21.308	**<0.001**
Stigma x *Score*	6.348	1	6.348	1.775	**0.092**
Error	940.3	263	3.575		

Panel C: Follow-up Simple Effects

	df	F	*p*-value
Effect of *Stigma* given *Score* is Low	1	2.418	**0.061**
Effect of *Stigma* given *Score* is High	1	0.101	**0.376**
Effects of *Score* given *Stigma* is Event	1	5.288	**0.011**
Effects of *Score* given *Stigma* is Core	1	18.043	**<0.001**

Bolded *p*-values are one-tailed.

Stigma: Variable set to 0 for Event Stigma and 1 for Core Stigma

Score: Variable set to 0 for Low Score and 1 for High Score

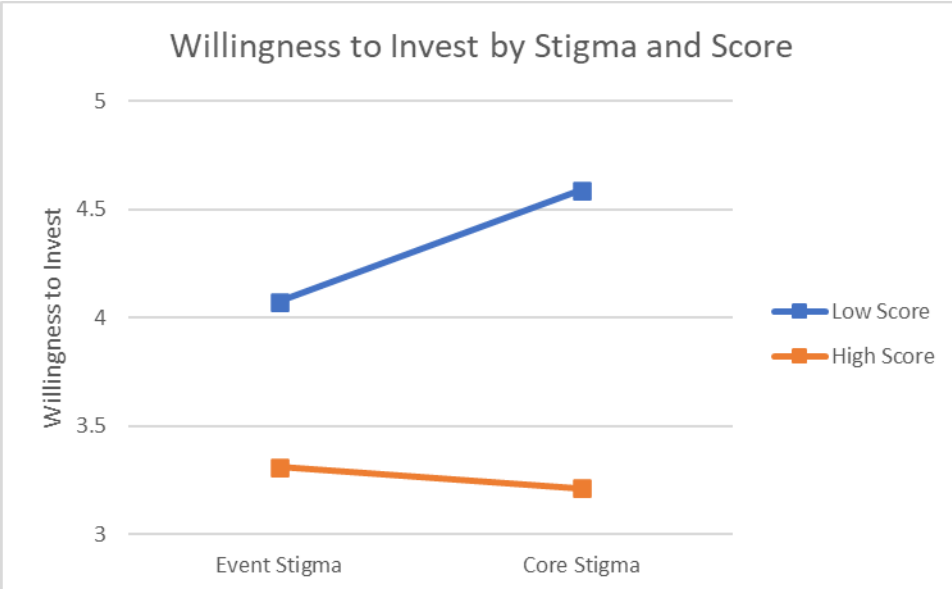

Figure 4: Results for Willingness to Invest by Stigma and Score

4.2. Effects of Stigma and Score on Controversy Responsibility

H4a predicts that perceived responsibility for stigma will be higher under event stigma than core stigma. The descriptive statistics and results of the ANOVA are shown in Table 4. Consistent with the prediction in H4a, the mean for *Controversy Responsibility* is greater in the Event *Stigma* condition than the Core *Stigma* condition (5.01 [1.06] versus 4.43 [1.17]). The results of the ANOVA in Panel B show that there is a significant difference (F[1, 263] = 17.45, p <0.001, one-tailed), thus there is support for H4a. The results of the ANOVA also show that *Controversy Responsibility* does not differ by *Score* (F[1, 263] = 1.16, p = 0.282) and there is no significant interaction (F[1, 263] = 0.70, p = 0.402). These results provide some evidence that investors diffuse the responsibility for a stigma across the industry which may be due to an expectancy confirmation about core stigma. Further, the lack of a significant interaction also supports the model of moderated mediation in Figure 2 where *Score* does not moderate the relationship between stigma and controversy responsibility (i.e., the score does not influence how responsible participants see the organization for the controversy).

Table 4: Descriptive Statistics and Test of Controversy Responsibility

Panel A: Descriptive Statistics for Controversy Responsibility - Mean (SD)			
	Event Stigma	Core Stigma	Total
Low Score	4.871 (1.155) n=63	4.413 (1.194) n=68	4.634 (1.193) n=131
High Score	5.134 (0.955) n=68	4.446 (1.162) n=68	4.790 (1.115) n=136
Total	5.008 (1.060) n=131	4.430 (1.174) n=136	4.713 (1.154) n=267

Panel B: ANOVA Results for Controversy Responsibility					
	SS	df	MS	F	p-value
Stigma	21.883	1	21.883	17.450	**<0.001**
Score	1.460	1	1.455	1.160	0.282
Stigma x *Score*	0.882	1	0.882	0.704	0.402
Error	329.805	263	1.254		

Bolded *p*-values are one-tailed.
Stigma: Variable set to 0 for Event Stigma and 1 for Core Stigma
Score: Variable set to 0 for Low Score and 1 for High Score

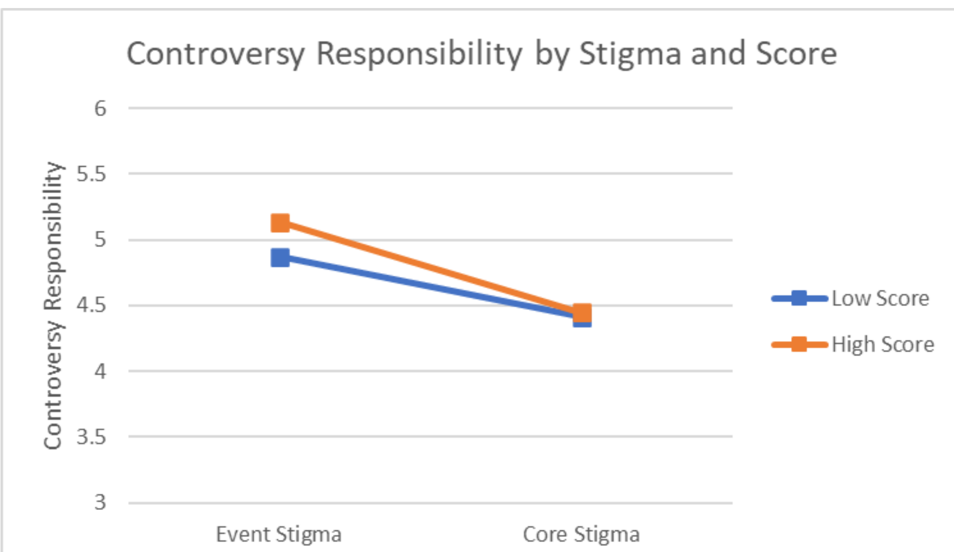

Figure 5: Results for Controversy Responsibility by Stigma and Score

4.3. Moderated Mediation Analysis

H4b predicts that willingness to invest in an organization with a controversy stigma will be mediated by the perceived responsibility for that stigma. To test for moderated mediation, I use the Hayes (2018) PROCESS macro model 15 with bootstrapping sample size of 5,000. Table 5 and Figure 6 show the moderated mediation results. The analysis shows a significant negative association between *Stigma* and *Controversy Responsibility* ($\beta = -0.58$, $p < 0.001$) and a significant negative association between *Controversy Responsibility* and *Willingness to Invest* ($\beta = -0.41$, $p = 0.002$). Table 5 shows that there is significant mediation when *Score* is Low (90 percent CI = [0.0658, 0.4786]) and when *Score* is High (90 percent CI = [0.2936, 0.7527]). These results suggest that the negative association between *Controversy Responsibility* and *Willingness to Invest* is lessened when a High *Score* is present. The index of moderated mediation is significant (90 percent CI = [0.0527, 0.5033]). This provides support for H4b.

Table 5: Indirect Effects of Stigma on Willingness to Invest

			Bootstrapped Confidence Interval	
	Indirect Path Coeff.	Bootstrapped Std. Error	Lower Limit	Upper Limit
Low Score	0.24	0.13	0.0658	0.4786
High Score	0.51	0.14	0.2936	0.7527
	Index			
Index of moderated mediation	0.2772	0.1374	0.0568	0.5030

Notes:
Stigma: Variable set to 0 for Event Stigma and 1 for Core Stigma
Score: Variable set to 0 for Low Score and 1 for High Score

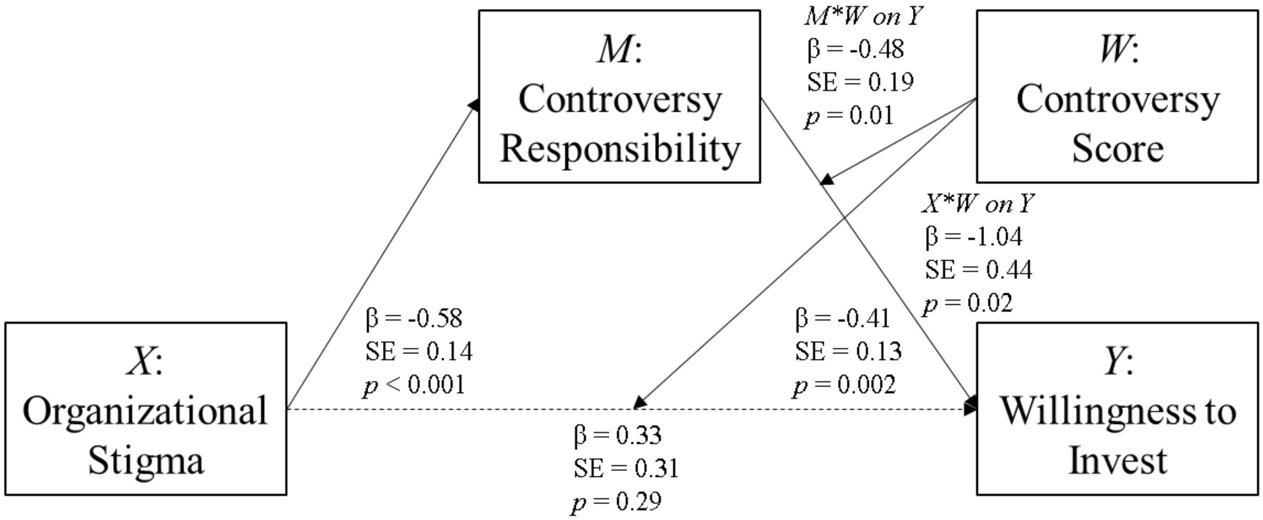

Figure 6: Moderated Mediation Results

5. Conclusion

Through this study, I aim to provide insight into how a key stakeholder, non-professional investors, assesses organizations with a stigma and how the quantification of controversy influences these assessments. The results show that there is a significant impact on investor assessment when high controversy scores are provided and that these high scores have a greater effect when core stigma is present. While I do not find direct evidence for expectancy violation on investment decisions, I do find evidence for an expectancy violation from stigma type on perceived controversy responsibility. This study shows that investors' response to core and event stigma is mediated through the perceived controversy responsibility. These results provide a number of novel contributions to the literature.

This study makes a contribution to the development of a theory of organizational stigma (Devers et al. 2009). This study provides some of the first behavioral evidence for comparing differences in stakeholder responses to event stigma and core stigma (Hudson 2008). I test one of the propositions from Devers et al. (2009), providing deeper insights into the different assessments of responsibility when different organizational stigmas are present. Additionally, there is a robust stream of literature on the importance of the organizational response to crisis (i.e., crisis management) (Simola 2005; Coombs and Holladay 2023). Given that this study captures investor response prior to any crisis management, these results can provide insight on the different pressures from shareholders which may influence how organizations manage a controversial incident. Having empirical evidence for these constructs in the organizational stigma literature can aid in developing a more comprehensive theory about organizational stigma.

The final contribution of this study is to the research on accountability and social and environmental accounting (Lennard 2023 [Study 1]). While it is beyond the scope of this study to provide any normative claims about optimal or suboptimal outcomes from quantifying controversy, this study can provide evidence that academic literature should pay particular attention to the new forms of accounting and how they may be influencing stakeholders across the organization. Accounting is a powerful tool (Burchell, Clubb, Hopwood, Hughes, and Nahapiet 1980) and decisions on how to provide accounts of non-financial factors require careful consideration. Results from this study suggest that these scores do not influence an investors assessment of the stigma, but they do affect investment decisions. Future research that explores forms of social and environmental accounting can further our understanding of non-financial metrics and how quantifying complex social phenomena such as controversy can change responses to these events.

All stakeholders, investors included, play an important role in holding organizations accountable for their societal impact. This study provides evidence that stakeholders may be less punitive to organizations with a core stigma as they hold these organizations less responsible.

When considering how to develop accounts to capture social and environmental impact, it may be critically important for practitioners and academics to consider how stakeholders may diffuse responsibility if the negative impact is shared across an industry. Additionally, providing a quantifiable account of this impact can influence investment decisions, but may be interpreted in unintended ways.

Admittedly, issues of controversy and stigma are incredibly complex and in practice will have many nuanced specifics that will influence the ultimate outcomes. These complexities allow room for future studies to further expand our understanding of these phenomena. Likewise, the conclusion that can be drawn from this study needs some qualifications. This study cannot speak to how different issues may compare to each other, such as whether an event stigma of an oil spill will have more or less of an effect than a core stigma of the pornography industry. Additionally, the severity of the controversy used in this study may be low compared to controversies that lead to physical harm. Since I am trying to capture responses to the stigma of a controversy, the setting used in this study makes the stigma salient. While I do not have any expectation that the relationship would change using a different controversy, there may be other aspects about other controversial industries that could influence the relationships or be more influential in a stakeholder's ultimate decision. Future research may wish to explore the effects of organizational stigma when there is lower stigma transfer or the industry provides more functional utility to society (Lennard 2023 [Study 1]).

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APPENDIX A: STUDY 2 PARTICIPANT DEMOGRAPHICS

Table 6: Study 2 Participant Demographics

	Frequency	Percent
What is your gender?		
Male	176	65.9%
Female	88	33%
Nonbinary/third gender	2	0.7%
Prefer not to say	1	0.4%
What is your political affiliation?		
Liberal	136	50.9%
Moderate	78	29.2%
Conservative	50	18.7%
Prefer not to say	3	1.1%
What is your current employment status? (select all that apply)		
Employed full time	188	70.4%
Employed part time	33	12.4%
Unemployed looking for work	10	3.7%
Unemployed not looking for work	11	4.1%
Retired	9	3.4%
Student	9	3.4%
Disabled	2	0.7%
Selected more than 1	5	1.9%
What is your household income bracket?		
Under $25,000	23	8.6%
$25,000 to 40,000	45	16.9%
$40,001 to 60,000	47	17.6%
$60,001 to 80,000	47	17.6%
$80,001 to 100,000	27	10.1%
Above $100,000	75	28.1%
Prefer not to say	3	1.1%
How many years of investment experience do you have?		
0	8	3%
Less than 1	25	9.4%
1 - 4	91	34.1%
5 - 8	59	22.1%
9 - 12	37	13.9%
13 - 16	12	4.5%
17 - 20	9	3.4%
Over 20	26	9.7%

APPENDIX B: STUDY 2 STIGMA MANIPULATION

During 2022, VidTube faced some notable publicity from a controversy. The controversy is described in the following extract from a recent news article:


The Daily News.

October 31, 2022

Video sharing and porn

The internet provides resources and connections across the globe, but it also increases access to pornographic content. Debates are ongoing about the production and distribution of pornography and whether there are adequate controls to stop underage persons from accessing explicit content.

An activist group that advocates against indecent content in child entertainment media has called attention to the access to pornographic material through online video sharing platforms.

VidTube, a household video-sharing platform, is facing claims that a lack of oversight allows pornographic content to be shared on their platform. VidTube has rules prohibiting explicit content, yet it appears there is insufficient enforcement of these rules.

When reached for comment, VidTube stated, “We have many content controls in place and are continuing to review these procedures.”

Figure 7: Study 2 Event Stigma Manipulation

During 2022, VidTube faced some notable publicity from a controversy. The controversy is described in the following extract from a recent news article:

The Daily News.

October 31, 2022

Video sharing and porn

The internet provides resources and connections across the globe, but it also increases access to pornographic content. Debates are ongoing about the production and distribution of pornography and whether there are adequate controls to stop underage persons from accessing explicit content.

An activist group that advocates against indecent content in child entertainment media has called attention to the access to pornographic material through online video sharing platforms.

These debates are an ever-present concern for companies in the adult entertainment industry and firms like VidTube, a video sharing platform for pornographic content, face scrutiny around their business model.

When reached for comment, VidTube stated, “We have many content controls in place and are continuing to review these procedures.”

Figure 8: Study 2 Core Stigma Manipulation

APPENDIX C: STUDY 2 SCORE MANIPULATION

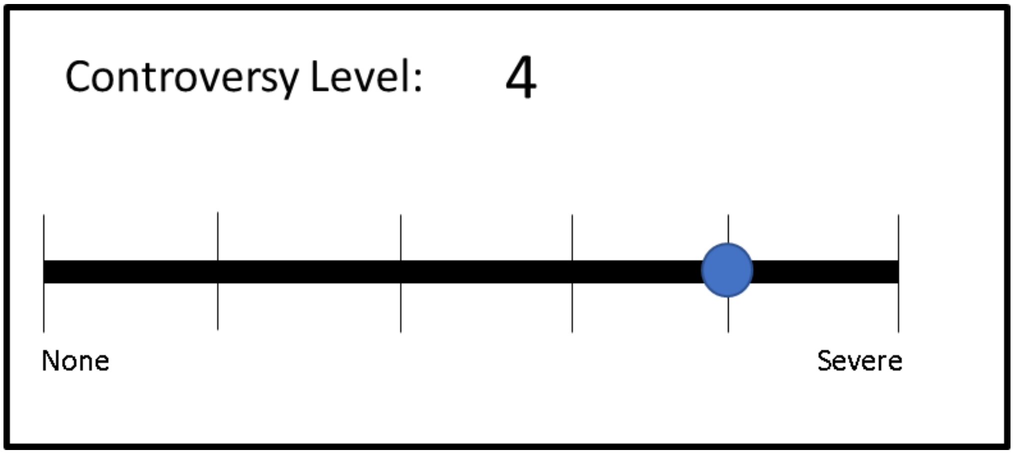

Figure 9: Study 2 Controversy Score for VidTube (High)

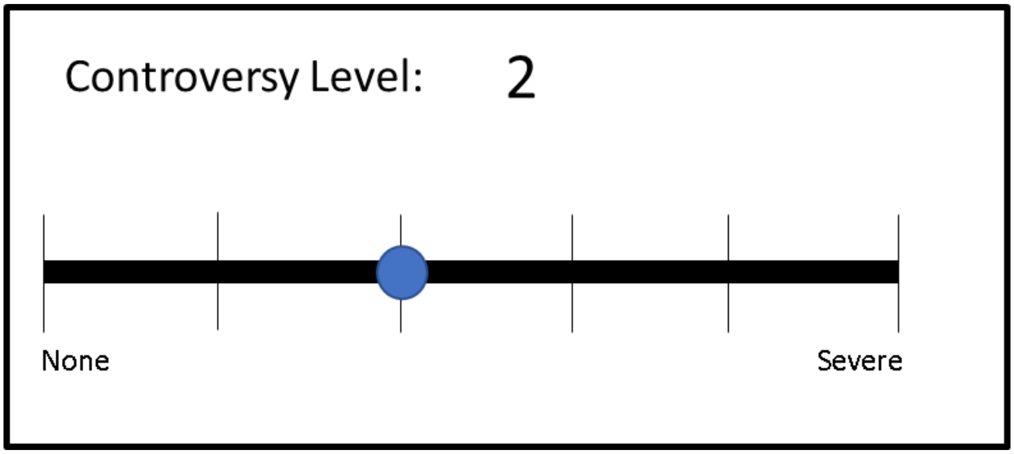

Figure 10: Study 2 Controversy Score for VidTube (Low)

APPENDIX D: STUDY 2 FACTOR ANALYSIS

Table 7: Study 2 Exploratory Factor Analysis of Controversy Responsibility and Willingness to Invest

	Factor 1	Factor 2
Factor Loadings for Measures of Controversy Responsibility Extracted Using Maximum Likelihood with Promax Rotation with Kaiser Normalization and Related Statistics		
The organization had the capability to stop the controversy from occurring.	0.786	-0.427
The controversy was preventable by the organization.	0.821	-0.420
The organization has the resources to prevent the controversy from occurring.	0.641	-0.605
The organization could have avoided the controversy.	0.796	-0.392
The organization should be held accountable for the controversy.	0.793	0.163
The organization should be blamed for the controversy.	0.811	0.225
The controversy was caused by a weakness in the organization.	0.744	0.432
Internal organizational issues contributed to the controversy.	0.694	0.550
The controversy was caused by a problem inside the organization.	0.728	0.501
Eigenvalues	5.191	1.696
Percent variance explained	57.680	18.849
KMO measure of sampling adequacy	0.853	
Bartlett's test of sphericity	$p < .000$	
Cronbach's alpha	0.907	
Factor Loadings for Measures of Willingness to Invest Extracted Using Maximum Likelihood with Promax Rotation with Kaiser Normalization and Related Statistics		
In increments of $1,000, how much of the $10,000 available for investment would you allocate to VidTube?	0.870	
How attractive is VidTube as a potential investment?	0.928	
How risky is an investment in VidTube?	0.731	
Eigenvalues	2.153	
Percent variance explained	71.758	
KMO measure of sampling adequacy	0.598	
Bartlett's test of sphericity	$p = .001$	
Cronbach's alpha	0.798	

Notes:

APPENDIX E: STUDY 2 IRB APPROVAL

UCF

UNIVERSITY OF CENTRAL FLORIDA

Institutional Review Board
FWA00000351
IRB00001138, IRB00012110
Office of Research
12201 Research Parkway
Orlando, FL 32826-3246

EXEMPTION DETERMINATION

December 19, 2022

Dear Jacob Lennard:

On 12/19/2022, the IRB determined the following submission to be human subjects research that is exempt from regulation:

Type of Review:	Initial Study, Exempt category 1
Title:	Investor Response to Organizational Controversy
Investigator:	Jacob Lennard
IRB ID:	STUDY00004942
Funding:	None
Grant ID:	None
Documents Reviewed:	• HRP 251, Category: Faculty Research Approval; • HRP 255, Category: IRB Protocol; • HRP-254, Category: Consent Form; • Instrument, Category: Test Instruments; • Recruitment Materials, Category: Recruitment Materials;

This determination applies only to the activities described in the IRB submission and does not apply should any changes be made. If changes are made, and there are questions about whether these changes affect the exempt status of the human research, please submit a modification request to the IRB. Guidance on submitting Modifications and Administrative Check-in are detailed in the Investigator Manual (HRP-103), which can be found by navigating to the IRB Library within the IRB system. When you have completed your research, please submit a Study Closure request so that IRB records will be accurate.

If you have any questions, please contact the UCF IRB at 407-823-2901 or irb@ucf.edu. Please include your project title and IRB number in all correspondence with this office.

Figure 11: Study 2 IRB Approval Form