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STATUS AND CORPORATE ILLEGALITY: ILLEGAL LOAN RECOVERY PRACTICES OF COMMERCIAL BANKS IN INDIA

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Why might high-status organizations, presumably secure in their positions, resort to illegality? This study considers the possibility that status theory might have overestimated the relative security of high-status organizations. We examine our theory that an inability to meet associates' expectations about quality might be the source of insecurity, using data on the illegal loan recovery practices employed by commercial banks in India between 2005 and 2009. High-status banks were found to be particularly likely to engage in illegal recovery practices. This was especially true when a high-status bank had experienced a decline in its financial asset quality or had fallen behind the financial asset quality of its peers. However, when a bank's business partners placed greater emphasis on corporate social responsibility (CSR), it minimized a bank's tendency to resort to illegal loan recovery practices.

A key premise of status theory is that high-status organizations enjoy a sense of security resulting from the stability of the status order (Phillips & Zuckerman, 2001; Podolny, 1994; Sauder, Lynn, & Podolny, 2012), which sense of security should limit their need to engage in questionable activities (Greve, Palmer, & Pozner, 2010). The stability in the status order is brought about by status homophily, whereby high-status organizations carefully associate only with others of high status and cautiously avoid associations with low-status organizations (Castellucci & Ertug, 2010; Podolny, 1994; Pollock, Chen, Jackson, & Hambrick, 2010). Occupying a position higher up in the status hierarchy is known to attract disproportionate rewards. Research has shown that high-status organizations are better rewarded for a given level of quality (Benjamin & Podolny, 1999), enjoy cost advantages (Podolny, 1993), and have better access to key resources and opportunities (Podolny & Phillips, 1996; Pollock & Rindova, 2003; Stuart, Hoang, & Hybels, 1999). The relative security of their position and the disproportionate advantages that high-status organizations enjoy should limit their motivation to engage in corporate illegality (Greve et al., 2010). However, scholarly work has shown that high-status organizations not only engage in illegality, but also suffer the penalties of doing so (Greve et al., 2010; Jensen, 2006). This gives rise to a puzzling question: What prompts high-status organizations to engage in risky illegal acts?

In this study, we consider the possibility that the received wisdom in status research has overestimated the relative security of a high-status position and that high-status organizations might actually be *in*secure. Recent research on the illegal acts of prominent firms supports this possibility by suggesting that loss aversion could be a factor

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motivating illegality. Mishina, Dykes, Block, and Pollock (2010) suggest that firms with a record of outstanding performance may engage in corporate illegality to avoid the loss that they might incur if they were to fail to meet the unrealistic performance expectations of their audience. The authors find that this link between good performance and illegality is stronger for prominent firms. There are reasons to expect that insecurity regarding status position might similarly trigger loss aversion among high-status organizations, motivating them to engage in illegality. Although not all prominent firms are of high status, high-status firms tend to be prominent: "A firm's prominence reflects the degree to which external audiences are aware of its existence, as well as the extent to which they view it as relevant and salient" (Mishina et al., 2010: 706), which, for a high-status firm, is directly tied to its association with high-status others (Podolny, 1993). For a high-status organization, loss aversion may be triggered by a fear of status loss should it fail to meet its associates' expectations about vital attributes of its reputation. "Status loss" refers to a decline in the deference formerly enjoyed by an organization among its associates, whereby its associates no longer prioritize the organization as a preferred partner (Neeley, 2013; Podolny & Phillips, 1996).

In developing our theory linking the insecurity of high-status organizations with their motivation to engage in illegality, we consider (a) reputation for quality as the source of insecurity for high-status organizations, (b) why illegality might be adopted as a means of dealing with this insecurity, and (c) when illegality is less likely to be chosen as a remedy.[1] Status homophily suggests that high-status organizations are careful about the status of those with whom they associate—avoiding associating with organizations of low status (Podolny, 1993). Indeed, high-status organizations are likely to exercise such caution within their status class as well, basing associations with high-status others on the reputations of those others in terms of attributes that the organization deems relevant. Organizations can vary in terms of their reputations, and those reputations can vary across different attributes (Jensen & Roy, 2008; Jensen, Kim, & Kim, 2012). For instance, an organization might have a positive reputation in terms of product quality and financial asset quality, but a negative reputation in terms of integrity (Jensen & Roy, 2008). Jensen and Roy (2008) have shown that high-status clients use status cues to screen service providers and that clients subsequently tend to associate primarily with providers within their status class whose reputations meet their expectations in terms of specific attributes that they care about: financial quality and integrity, for example. To the extent that other firms with whom a high-status firm deals care about certain attributes, they may similarly be more likely to sever ties with a firm with a bad reputation along some important dimension. An inability to meet associates' expectations can thus threaten a firm with a loss of status and induce insecurity; taking risks so as to preserve a position in the status order may then seem attractive. This may be why high-status organizations are willing to take risks to improve those aspects of reputation that are most commensurate with a high-status position.

Quality, or the ability to consistently deliver high levels of performance, is a prominent attribute often associated with status, and it is salient for a firm's affiliates (Ertug & Castellucci, 2013; Podolny, 1994), so high-status organizations tend to focus on maintaining or improving their reputations for quality. "Quality," in this study, refers primarily to the quality of a firm's financial assets: an important measure of quality for the commercial banks that were the study's focus (Beaver, Eger, Ryan, & Wolfson, 1989).[2] Status theory posits that potential associates infer quality from an organization's relationships with high-status others, which are often more readily observable than its own underlying quality. An organization's status is then directly determined by its affiliations with high-status others, but indirectly determined by its prior demonstrations of quality (i.e., its reputation for quality) (Sauder et al., 2012). Although external audiences can only imperfectly evaluate an organization's underlying quality and have to rely on observing its relationships with high-status others, its associates are in a better position to evaluate the underlying quality of the high-status organization owing to their close interactions with it. They have less need to rely less on its position in the status hierarchy as

[1] We thank the associate editor for helping us to clarify the structure of our theoretical mechanisms in the introduction.

[2] The proportion of nonperforming assets (NPAs) in a commercial bank's portfolio largely determines its financial asset quality: The lower the NPA, the better a bank's financial asset quality (Beaver et al., 1989; Meeker & Gray, 1987). This is treated in the "Methods" section, but in our "Theory" section we refer to financial asset quality in general as "quality."

a signal (Podolny, 2005: 38). This creates pressure on a high-status organization to continuously improve upon its own reputation for quality and to exceed, or at least keep up with, the reputations for quality of other high-status organizations if it is to maintain its own high-status position (Park & Podolny, 2000: 380). To avoid status loss, a high-status firm may then be more willing to resort to illegal acts to enhance or maintain its reputation for quality. Discovery may, of course, contribute to status loss, but a high-status organization may assume that it will be able to divert its associates' attention away from any illegal acts, because it used them only as a means of meeting expectations of reputation for quality: an attribute highly relevant to that audience (Bandura, Barbaranelli, Caprara, & Pastorelli, 1996; Greve et al., 2010).

We argue, however, that this tendency will be mitigated when the associates of a high-status organization also care about reputation for integrity (i.e., the use of ethical means to deliver a given level of quality). Reputation for quality may be a baseline role expectation for occupying a high-status position, but some associates might also care about whether or not the means used to deliver that high quality are ethical. If so, they are likely to be hypervigilant in their evaluation of a high-status organization's actions in an attempt to avoid any negative contagion (Boivie, Graffin, & Pollock, 2012; Jensen, 2006). That should discourage a high-status organization from resorting to illegality to meet expectations about reputation for quality. In this study, we find support for these arguments in an examination of illegal loan recovery practices among commercial banks in India between 2005 and 2009.

The present study offers the following contributions to status theory. First, it emphasizes the need to reconsider the conventional assumption in status theory that high-status organizations enjoy relative security (Phillips & Zuckerman, 2001; Sauder et al., 2012): It shows, in fact, that the fear of potential status loss can prompt high-status organizations to resort to corporate illegality.

Second, status theory not only considers the link between reputation for quality and status to be indirect, but also considers this link to be less relevant for status once an organization establishes its position higher up in the status hierarchy. Our study contributes to this stream of research by showing how reputation for quality might be highly relevant, to the extent that it might be a source of insecurity for high-status organizations.

Third, and relatedly, whereas quality is the only attribute of reputation that is highlighted in status theory, recent status research shows that reputation for other attributes, when considered relevant to a focal exchange, may also affect partner choice decisions (Jensen & Roy, 2008). Our study adds to this recent stream of research by showing that affiliates' reputation expectations can also affect the behavior of high-status organizations: In addition to the associates' generalized expectations about a high-status organization's reputation for quality, heterogeneity in their expectations about reputation for integrity can also heavily condition a high-status organization's behavior.

Finally, while prior research has emphasized only the many benefits of occupying a high-status position, this study draws attention to the burdens of occupying a high-status position and its detrimental effect on organizational actions.

THEORY AND HYPOTHESES

Status and Reputation

Status is an organization's relative position in a hierarchical social order. It is directly tied to the firm's pattern of affiliations and indirectly tied to its past behavior (Podolny, 2005: 13). An organization's status influences others' behavioral expectations of it (Podolny, 2005). "Reputation," in a general sense, has been used to describe behavioral expectations about an organization based on its actual past behavior (Lee, Pollock, & Jin, 2011; Pfarrer, Pollock, & Rindova, 2010). Thus status is indirectly tied to past behaviors, while reputation is directly tied, suggesting an imperfect correlation between an organization's reputation and its status (Barron & Rolfe, 2012; Podolny, 2005: 13). *Status* is actor-specific because it is conferred on an organization as a whole; *reputation* is attribute-specific because an organization's reputation can be different with respect to different attributes. The firm might, for example, have a positive reputation for product quality and financial asset quality, but a negative reputation with respect to other attributes, such as integrity (Jensen & Roy, 2008; Jensen et al., 2012). Similarly, in citing the usefulness of the reputation construct in status research, Podolny (2005) argues that reputation can be more useful as a stratifying construct if it is followed by a "for." According to Podolny (2005), unlike status, which is an overall assessment, reputation might more usefully be considered an attribute-specific assessment such as

a "reputation *for* quality" or a "reputation *for* integrity."

Although status and reputation are clearly distinct constructs, research has sometimes conflated the two (Barron & Rolfe, 2012; Jensen et al., 2012; Washington & Zajac, 2005). This has to do primarily with how reputation has been defined in management research (Lange, Lee, & Dai, 2011). Scholars have used integrative definitions of reputation that center on overall, organization-level assessments of a firm's ability to consistently deliver value to multiple audiences judged on multiple attributes (e.g., Fomburn, 2012; Rindova & Martins, 2012). Such integrative definitions make it difficult to distinguish reputation from status, so theorizing about and measuring them individually becomes difficult. Reputation is best treated as attribute- and audience-specific (Jensen et al., 2012). Some attributes will usually be more important than others for assigning status, and this can be a deciding factor in determining on which attributes an organization will focus. An organization tends to focus on the attributes that its target audience considers most relevant. Reputation then serves to predict future behavior based on whether or not the organization's past behavior has met the expectations involved with occupying a certain social status (Ertug & Castellucci, 2013; Jensen et al., 2012).

Status research, for the most part, contends that status is a relationally based signal of quality and so is indirectly tied to an organization's past demonstrations of quality (Lynn, Podolny, & Tao, 2009; Podolny, 2005). Because an organization's affiliations are more readily observable than its actual quality, potential exchange partners are more likely to rely on an organization's status to infer its underlying quality (Ertug & Castellucci, 2013). That makes a reputation for quality highly relevant to meeting the role expectations of occupying a high-status position (Ertug & Castellucci, 2013; Jensen et al., 2012). Of course, some associates might also consider other attributes of reputation important (Jensen et al., 2012). For instance, associates expect a high-status organization such as Starbucks to use good-quality coffee beans, but some might also be very concerned that the beans are ethically sourced and Fair Trade certified. In order to gain and retain franchises on university campuses in the United States and Canada, Starbucks offers a Fair Trade certified espresso option in addition to its standard range (Newswire, 2013). So associates will generally expect a high-status organization to maintain a high reputation for quality, but they are likely to differ in terms of their expectations about a reputation for integrity (i.e., the use of ethical means to deliver a given level of quality).

Status and Corporate Illegality

Status order stability. Viewing status as a relationally based signal of quality, status theory emphasizes how status flows through a firm's associations and why organizations tend to be cautious in choosing their associates. High-status organizations will try to refrain from associating with those of lower status, and low-status organizations will find it hard to associate with those enjoying higher status (Podolny, 2005). This leads to status homophily, whereby organizations associate most frequently with other organizations of comparable status (Castellucci & Ertug, 2010; Podolny, 1994; Pollock et al., 2010). Status homophily tends to stabilize the status ordering (Podolny, 1994), giving firms of high status a sense of security in their positions (Phillips & Zuckerman, 2001; Sauder et al., 2012). Extant status research argues that, once established, status positions can become so rigidified that an organization's status becomes more salient than its prior demonstrations of quality, and status becomes self-perpetuating (Phillips & Zuckerman, 2001). For instance, in their analysis of California wineries, Benjamin and Podolny (1999) showed that high-status wineries were able to charge more than those of low status for wine of the same quality. Research has shown that high-status organizations are even free to stray from maintaining a reputation for high quality without being penalized (Phillips & Zuckerman, 2001). Phillips and Zuckerman (2001) showed that high-status Silicon Valley law firms could afford to enter the less-admired family law practice without diluting their high-quality image because of the security of their position within the status hierarchy. Overall, the emphasis on status order stability in extant status research seems to suggest that once an organization establishes its position as a high-status player, its reputation for quality becomes less relevant for maintaining that position.

Reputation for quality as a source of status insecurity. There are, however, reasons to suspect that high-status organizations need not be as secure in their position as portrayed in prior research. Although potential associates infer an organization's

reputation for quality from its position in the status hierarchy, this may not be equally true for an organization's current associates. Their ongoing association may enable them to more accurately evaluate the validity of the firm's reputation for quality (Podolny, 2005: 38). Organizations must therefore constantly strive to meet their associates' expectations of reputation for quality. Moreover, an associate is also better placed and more likely to compare an organization's reputation for quality with the reputations of other organizations with which it associates. So, to maintain or improve its position in the status hierarchy, an organization must constantly strive to outperform its status bracket peers, maintaining or improving upon prior quality levels (Park & Podolny, 2000: 380). Such pressure is likely to create insecurity, especially among high-status organizations of whom expectations are disproportionately high. Should a high-status firm not strive to maintain or improve its reputation for quality, it will violate its associates' expectations and risk losing its status.

Status insecurity, loss aversion, and illegality. A high-status organization cannot risk losing deference from high-status associates because that might send unfavorable signals to potential associates who may prefer not to associate with it (Podolny, 1993). Compared to a low-status organization, a high-status one has more to lose from status loss, considering the amount of premium that a high-status position fetches (Jonsson, Greve, & Greve, 2009). Poor quality from a low-status organization is not very informative: It is in line with expectations. But a high-status organization's failure to maintain its reputation for quality is unexpected and therefore highly informative (Jonsson et al., 2009: 210). Once expectations about a high-status organization's quality are revised downward, it must expect to lose its position in the status hierarchy and the disproportionate rewards to cease to exist. The value at stake in losing a high-status position should trigger loss aversion.

"Loss aversion" describes an attitude to risk whereby the consequences of potential loss loom larger than the consequences of potential gains for the decision maker, even if they are in fact of the same magnitude. It increases a decision maker's willingness to make risky decisions (Kahneman & Tversky, 1979). In a series of social psychology experiments, Pettit, Yong, and Spataro (2010) showed that individuals value their current status more when they envision a potential loss in status than when they imagine a potential gain. Also, individuals who face a potential loss of status strive harder to avoid it than they would to achieve a similar status gain (Pettit et al., 2010). Applying these arguments to organizations, high-status organizations are likely to weigh the disadvantages of a possible status loss more heavily than the advantages derived from a current high-status position. A high-status firm is also likely to strive harder to maintain its status position than would a low-status firm, because the high-status firm has more to lose. Pettit and colleagues (2010) have also shown that when their status is at stake, individuals are willing to risk the best interests of the group to avoid losing status. Faced with a potential loss of status, high-status organizations will similarly be more willing to take risks—and the risky decisions triggered by loss aversion may even take the form of corporate illegality (Harris & Bromiley, 2007; Mishina et al., 2010).

Being discovered acting illegally is also likely to result in a loss of status, but the immediacy of a potential decline in reputation for quality may loom larger than the more distant prospect of getting caught; hence unethical, or even illegal, actions may seem tempting. Research on moral disengagement shows that disengaging moral self-regulation from an illegal act allows individuals to engage in illegality (Bandura, 1986; Bandura et al., 1996). Bandura and colleagues (1996) show that, of all of the moral disengagement mechanisms, moral justification, whereby an illegal conduct is morally reconstructed by connecting it to worthy purposes, contributed highly to engagement in illegality. In its attempt to avoid status loss by improving its reputation for quality, a high-status organization may also assume that it will be able to divert its associates' attention away from any illegal acts, because it used them only as a means to meet expectation on reputation for quality: an attribute highly relevant to that audience (Greve et al., 2010). Apple, for example, is reputed to produce consistently high-quality products. News reports suggest, however, that they are produced by Chinese suppliers who allegedly employ questionable labor practices and environmentally unfriendly production processes (Larson, 2011). A high-status organization might even assume that meeting, or exceeding, expectations on reputation for quality—a highly relevant attribute—might be noticed more and rewarded by its audience, or might "represent acceptable compromises" (Jensen et al., 2012: 150; Rhee & Valdez, 2009). Such supplier practices seem to be acceptable compromises for Apple's key audience: They

have not hurt its sales. Hence a high-status organization might assume that a certain amount of illegal activity might go unnoticed, or at least unpenalized, especially if the illegality does not affect its associates directly (Greve et al., 2010):

Hypothesis 1. The higher an organization's status, the more likely it is to engage in corporate illegality.

Status and Damage to Reputation for Quality and Illegality

Behavioral theory of the firm identifies that organizations evaluate their current organizational outcomes vis-à-vis their own historical organizational outcomes (Cyert & March, 1963). When they fall short, firms will tend to take risks to remedy the situation (Cyert & March, 1963; Greve, 1998; Iyer & Miller, 2008; Miller & Chen, 2004). A key finding of this research is that when organizational outcomes fall below historical aspirations, organizations are reluctant to adjust their aspirations downward (Greve, 2002; Lant, 1992); instead, they may take risks to make good the shortfall (Greve, 1998; March & Shapira, 1987, 1992). Since a high-status organization is expected to have a high absolute reputation for quality, it has to improve, or at least maintain, that reputation if it is to maintain its position.

In addition to their own historical organizational outcomes, organizations also evaluate themselves vis-à-vis the organizational outcomes of relevant others (Cyert & March 1963). Research shows that the "relevant others" for a high-status organization are likely to be other organizations within its status bracket (e.g., Festinger, 1954; Park & Podolny, 2000). Specifically, status theory posits that high-status organizations will avoid competing with low-status organizations for fear of losing deference from audiences within their own status bracket. Park and Podolny (2000: 386) explain that, in the sports car segment for example, the high-status producer Ferrari would compete more intensely with Lamborghini, which is within its status bracket, than it would with Mazda, which belongs to a lower status bracket. Status competition is thus localized (Park & Podolny, 2000), affecting how organizations evaluate their organizational outcomes vis-à-vis the organizational outcomes of others within their status bracket. In his work on the social comparison process, Festinger (1954) has shown that, when evaluating their abilities, individuals tend to compare themselves with those whose abilities are perceived to be close to their own. When abilities differ markedly, individuals categorize those whom they consider noncomparable as either higher status or lower status players. It is only within their own status group that individuals aspire to superior ability and strive to raise their ability vis-à-vis others in that group (Dreyer, 1953; Festinger, 1954). Consistent with this, in their work on managerial risk preferences, March and Shapira (1987, 1992) have shown that organizations take risks when their organizational outcomes fall below those of others whom they consider relevant. Such risky behavior can even extend to corporate illegality (Harris & Bromiley, 2007; Mishina et al., 2010).

When a high-status organization experiences a decline in its reputation for quality in comparison with its historical or social aspirations, the high expectations of its associates make it even more difficult to revise aspirations downward. Instead, the decline generates enormous pressure for the organization to regain its reputation for quality (Podolny & Phillips, 1996). A high-status firm that perceives status loss to be imminent may experience intense loss aversion. Hence we expect that, in comparison to those high-status organizations that have improved, or at least maintained, their reputations for quality vis-à-vis their own historical reputations or relative to those of their high-status peers, a high-status organization that has failed to do so will be tempted to resort to illegality:

Hypothesis 2. Any positive association between an organization's status and its level of illegal activity will be stronger when the organization falls short of its historical reputation for quality.

Hypothesis 3. Any positive association between an organization's status and its level of illegal activity will be stronger when the organization's reputation for quality falls short of those of its peers.

Status and Reputation for Integrity of Associates and Illegality

Because it is primarily evaluated in terms of its reputation for quality, a high-status organization may come to believe that associates will reward it as long as it meets or exceeds quality expectations, regardless of the means adopted. Greve and colleagues (2010) have argued that since a high-status organization is generally considered to be competent and credible, audiences do not pay much

attention to reports of its illegal acts that are not directly relevant to their own exchanges with the high-status organization. High-status organizations are thus less likely to be negatively affected by allegations of illegal acts if those acts are not directly pertinent to their focal exchange. Rhee and Valdez (2009) argue that organizations suffer irreparable damage to their images in the eyes of their target audience only if they violate audience expectations on a dimension of reputation that the audience values highly, but not if the damaging event is unrelated to the dimensions of reputation that the target audience values.

These arguments suggest that a high-status organization might expect to divert its associates' attention away from its illegal acts as long as those acts are not very relevant to the exchanges involved. However, some of those associates might themselves be rated high on integrity: For them, a firm's reputation for integrity may matter as much as its reputation for quality; and for them, any act of illegality is highly relevant. Indeed, such associates are likely to be hypervigilant about the high-status organization's actions and may not hesitate to disassociate themselves if they even suspect illegal activity. For example, research shows that outside directors are more likely to leave a firm's board following negative events such as a financial restatement or a shareholder lawsuit (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Boivie et al., 2012; Cowen & Marcel, 2011; Srinivasan, 2005). Boivie and colleagues (2012) have shown that such departures are voluntary: the director's attempt to avoid tainting his or her own reputation for integrity. After all, outside directors tend themselves to have an elite background.

Overall, associates who are themselves rated highly for integrity are less likely to tolerate corporate illegality from a high-status organization and are more likely to avoid damage to their own reputations for integrity by distancing themselves from the high-status organization should corporate illegality occur. This should discourage a high-status organization whose associates care about their reputations for integrity from resorting to illegality as a means of meeting expectations pertaining to its reputation for quality:

Hypothesis 4. Any positive association between an organization's status and its level of illegal activity will be weaker when the organization's associates are rated higher in terms of reputation for integrity.

METHODS

Data and Sample

We tested our hypotheses using data on the illegal loan recovery practices of commercial banks in India. While employing illegal means to recover bad debts is a practice typically associated with the "loan sharks" of the underworld (Haller & Alvitti, 1977), there are indications that it has become widespread even among high-status commercial banks the world over (*Chicago Sun Times*, 2011; Klan, 2008; Raja, 2007; Rowley, 2011). Such dubious practices have been rampant in Indian banking since at least 2004.

As the following extract attests, banks and their loan recovery agents have been found jointly guilty of imposing mental distress and physical abuse on borrowers, much like underworld loan sharks. Such harassment has targeted not only the defaulters themselves, but also those close to them, to add pressure for repayment:

> It was not the inability to repay their debts that pushed them over the edge, it was the verbal, and sometimes, physical abuse, public humiliation at their places of residence and work, threats and the intimidating behavior that did it. Petrified when goons called their Mulund house the day before and threatened to abduct his sister and take away all the belongings if the family did not come up with the dues immediately, Nikhil Prabhakar killed himself over just Rs4,000. He consumed pesticide. There have been suicides over defaults where the entire loan amount has been under Rs20,000... The list of complaints against leading private sector banks like ICICI, HDFC and Citibank run into the thousands... [This is despite the fact that] the [Reserve Bank of India] has clearly laid down guidelines for loan recovery methods and reserves the right to impose any penalty on a bank under the provisions of the Banking Regulation Act, 1949, for violation.
>
> (*The Statesman*, 2007: 1)

This extract is from a front-page story reported in *The Statesman*, an Indian newspaper, on November 18, 2007. Recovery agents arrived unannounced at a borrower's workplace and residence, delivering verbal abuse, threats, and even physical torture not only to the borrower, but also to his friends and family. There have also been instances of kidnapping and detention of credit card defaulters at a bank's premises until the borrower made arrangements for repayment (e.g., Special Correspondent, 2005).

Interestingly, in India, it is the high-status commercial banks such as State Bank of India, ICICI Bank, HDFC Bank, and Citibank that have generated the greatest number of loan recovery harassment complaints to the Banking Ombudsman. In fact, between 2005 and 2009, 15 of the banks with the highest status scores (based on Bonacich centrality scores in preferred banker networks among BSE500 firms) also figured prominently among the banks that were subject of the largest number of loan recovery harassment complaints. Indian banks' illegal loan recovery practices thus lend themselves well to testing hypotheses about the relationship between organizational status and corporate illegality.

We examined the illegal loan recovery practices of all 82 commercial banks that operated in India between 2004 and 2009. Since the analysis involved a time-lagged design, the complaints spanned 2005–09 and the independent variables were observed between 2004 and 2008. Of the 82 banks in the sample, 77 operated throughout the study period and five others entered or exited during the period, resulting in a total of 396 bank-year observations.

We collected data on illegal loan recovery practices from the published reports of India's Banking Ombudsman. The Banking Ombudsman is an appellate authority appointed by the Reserve Bank of India (RBI) to resolve consumer complaints against banks and their affiliates. It has been in operation since 1995; since 2005, the RBI has been publishing a breakdown of the various complaints made against each bank.

We constructed a status measure using data from the *Prowess* database. This is a popular business research database for Indian companies, developed and maintained by the Center for Monitoring the Indian Economy (CMIE). The database is publicly available, and is often used in studies of corporate finance and management involving Indian organizations (see Bertrand, Mehta, & Mullainathan, 2002; Gopalan, Nanda, & Seru, 2007; Khanna & Palepu, 2000). We used information from the database to tabulate the affiliations of each bank with the top 500 firms by market capitalization listed on the Bombay Stock Exchange (BSE), India's leading exchange. Shares in those 500 firms are often considered to be India's "blue chips."

We obtained financial data for each bank, such as its ratio of nonperforming assets to total assets, return on assets (ROA), and amount of bad loans securitized, from the annual reports available in the RBI's statistical archives. This source also provided demographic data on each, such as its age, number of employees, and the number and profile of its new branches each year.

We obtained data on corporate social responsibility (CSR) for the BSE500 firms from the publications of Karmayog, a nonprofit organization that, like Kinder, Lydenberg, and Domini in the United States, records the socially responsible activities of India's 500 largest companies (i.e., those included in the BSE500 index).

Variables

Corporate illegality. The illegal act examined was the use of illegal loan recovery practices by the commercial banks and their agents. We coded the data from the Banking Ombudsman's annual reports, which categorize the complaints lodged against each bank. The categories include failure to fulfill commitments, credit card issues, housing loan issues, loan recovery harassment, deposit-related issues, and others. The RBI clarifies that the harassment category pertains to "non-observance of Reserve Bank guidelines on engagement of recovery agents by banks" (Thorat, 2009). The RBI requires each bank to complete a thorough background check on its agents and to appoint loan recovery officers to monitor their actions. The RBI and the courts hold banks vicariously liable for any of their agents' transgression (Associated Press, 2007).

Ample research on negative reputation spillovers has established that stakeholders and lawmakers do hold a firm responsible for the illegal behavior of its agents (Barnett & Hoffman, 2008; Jonsson et al., 2009). Hence firms tend to regulate the behavior of their agents to avoid any negative spillover from any illegal acts in which their agents might engage (Barnett & King, 2008; Jonsson et al., 2009). Of course, if the illegal acts directly or indirectly benefit the focal firm, the focal firm is indeed an accomplice. For example, when an accounting firm endorses accounts that prove to contain accounting irregularities, the courts hold the firm and its accounting firm jointly responsible (Allen, 1990; Dodd, 1992). Therefore any illegal loan recovery practices that a bank's loan recovery agents might adopt are clearly attributed to the banks themselves.

We quantified *corporate illegality* for each bank in each year as the number of harassment complaints against the bank, as reported by the Banking Ombudsman. This measure of corporate illegality is

consistent with one used by Simpson and Koper (1997) in a prior study of corporate crime.

It is, of course, well known that crime statistics are, at best, an approximation of actual crime rates (Simpson, 1986; Simpson & Koper, 1997). In addition to the usual underreporting, there may actually be *over*-reporting of crimes committed by firms, and such reporting errors may not be randomly distributed across firms (Simpson, 1986). In this study, however, we can be reasonably confident that there is not much over-reporting because of the stringent criteria that the Ombudsman uses when registering complaints against banks. A complainant must approach the bank first and give it sufficient time in which to respond before filing a complaint with the Ombudsman. The Ombudsman then verifies that the complaint is not frivolous or vexatious, that it is not a duplicate, and that the complaint is not pending or resolved in the courts or other avenues for consumer redress.

However, it is difficult to rule out underreporting. The prime cause of underreporting is probably that the victim is either shy or unaware of the redress mechanism. We therefore controlled for underreporting in the analyses by using control variables. Further, to establish the robustness for the findings, additional analyses tested whether or not the results still held after accounting for each bank's baseline complaint frequency (i.e., the number of other concurrent and previous complaints unrelated to loan recovery). Further, in one of our robustness tests, we quantified the dependent variable as the number of loan recovery harassment complaints normalized by bank size (the natural logarithm of the number of employees). We discuss these additional analyses in detail under the heading "Robustness Checks".

Status. A bank's *status* was the key independent variable in our modeling. An organization's status is well represented by the status of the other organizations with which it is connected. Bonacich's (1987) centrality score is a well-established network measure of status often used in prior studies (Podolny, 2001; Podolny & Phillips, 1996; Jensen, 2003). It computes an actor's power in its network by taking into account not only the actor's centrality, but also the centrality of those connected with it (Bonacich, 1987). The network that we used to compute the Bonacich centrality score for each bank was an affiliation network based on the preferred banker relationships of the 500 largest firms listed on the BSE. Many of the BSE500 list their preferred bankers in their annual reports. This is voluntary disclosure, but it signals their endorsement of the banks and presumably shows that they are confident about those banks' conduct. On average, each firm in the BSE500 lists 3.5 banks as preferred bankers. Preferred bankers often share banking responsibilities, acting as co-lenders on commercial loans to the firm, jointly promoting its share and debenture issues, and so on. Thus banks intersect with each other when they jointly service a corporate client that lists them as "preferred." This approach to constructing networks of banks through their joint affiliations with corporate clients is consistent with the methods of prior research on social networks, in which networks of venture capitalists have been constructed using their affiliations with start-up firms that they jointly funded (e.g., Rider, 2009; Sorenson & Stuart, 2001). Based on this affiliation network, we computed each bank's Bonacich centrality score in each year and used this as the measure of its status. We used alternative proxies for status in the robustness testing, and we discuss these in our section on "Robustness Checks".

Decline in reputation for quality. Financial asset quality is an important measure of quality for commercial banks (Beaver et al., 1989). The proportion of nonperforming assets (NPA) in a commercial bank's asset portfolio largely determines its financial asset quality: The lower the NPA proportion, the better is a bank's financial asset quality (Beaver et al., 1989; Meeker & Gray, 1987). Regulators, corporate clients, analysts, and other key audiences place substantial importance on a bank's financial asset quality. When it deteriorates, the risk of bankruptcy increases (Cole & Gunther, 1995), the stock market tends to react negatively (Beaver et al., 1989), and its key associates tend to withdraw from their associations (Brewer, Genay, Hunter, & Kaufman, 2003).

In India, it was only in 2004 that the RBI began to require all commercial banks to disclose periodically the level of NPA in their loan portfolios. The new regulatory requirement soon started to impact on how banks in India were evaluated. Banks came under tremendous pressure from their key associates to improve their financial asset quality. High-status banks such as ICICI Bank and HDFC Bank either discussed, in their quarterly shareholder meetings, their intention to reduce their NPA in the next quarter or highlighted their NPA reductions in the current quarter. By early 2005, banks that had improved their financial asset quality were also viewed favorably by the media. For example, *Business Today*, a popular Indian business magazine,

now uses financial asset quality as an important metric to rank the best banks in India annually. The RBI also rewarded banks with excellent loan recovery rates. Hence maintaining a good reputation for financial asset quality became a highly desired goal for Indian banks.

The hypotheses predict a moderating role for a bank's decline in reputation for quality on any observed status–illegality relationship. Testing for such moderating effects requires us first to define the effects of a decline in reputation on the two reference points (i.e., a bank's own reputation and those of its peers). Spline functions are suitable for this purpose (Mishina et al., 2010). Specifying a spline function of the difference between a bank's reputation for quality and its own past reputation and the reputations of its social reference points creates two separate variables from each spline function: (1a) *decline in historically referenced reputation for quality*; (1b) *increase in historically referenced reputation for quality*; (2a) *decline in socially referenced reputation for quality*; and (2b) *increase in socially referenced reputation for quality*. Although we are particularly interested in moderating effects 1a and 2a, 1b and 2b do help us to distinguish the effects of a decline in reputation for quality from those of an improvement.

To code the two spline functions, we first coded the financial asset quality of a bank in a given year using the NPA percentage in its loan portfolio in that year (Cole & Gunther, 1995). Higher values indicated poorer financial asset quality. We computed the difference in NPA percentage between year t and year t–1 for each bank-year. Values above 0 indicated that the bank's financial asset quality had deteriorated; values below 0 indicated that it had improved. We computed two variables to quantify the historically referenced change in reputation for quality in each bank-year:

$$\begin{aligned}&\textit{Decline in historically referenced reputation for quality} \text{ at time } t\\&\quad = (\text{NPA percentage in year } t - \text{NPA percentage in year } t-1),\ \text{if(NPA percentage}\\&\quad \text{in year } t > \text{NPA percentage in year } t-1);\\&\quad = 0,\ \text{if(NPA percentage in year } t \leqslant \text{NPA percentage in year } t-1)\end{aligned}$$

and

$$\begin{aligned}&\textit{Increase in historically referenced reputation for quality} \text{ at time } t\\&\quad = (\text{NPA percentage in year } t-1\text{-NPA percentage in year } t),\ \text{if(NPA percentage in}\\&\quad \text{year } t < \text{NPA percentage in year } t-1)\\&\quad = 0,\ \text{if(NPA percentage in year } t \geqslant \text{NPA percentage in year } t-1)\end{aligned}$$

We used the second spline function to examine the annual difference in a bank's NPA from that of its peers in that year. We theorized that the most relevant social reference in a study of status-based motivations for corporate illegality would be those peers with which a bank is affiliated. In particular, we expect that a BSE500 firm will have private information about all of its preferred bankers; hence it will be more able and likely to accurately compare the reputations for quality of all of its preferred bankers. Each bank might therefore evaluate its own performance vis-à-vis that of other banks with which it is directly affiliated in a preferred banker network. When a focal bank was listed as a preferred banker by more than one BSE500 firm, it implied that the focal bank was in competition with all of the other banks listed as preferred by all of its BSE500 clients. We considered a bank not listed by any BSE500 firm to be low-status bank competing primarily with other low-status banks.

We coded two variables representing socially referenced change in a bank's reputation for quality. As a first step, we computed annual change in NPA for each bank-year as:

NPA percentage in year t – NPA percentage in year t–1

We then computed the mean annual change in NPA of peers as the average of the annual changes in NPA of all the other banks in a focal bank's peer group, as previously defined.

With these two values, we coded two variables representing socially referenced change in reputation for quality:

Decline in socially referenced reputation for quality at time t
$= (\textit{Annual change in NPA of focal bank-Mean annual change in NPA of peers}),$ if
$(\textit{Annual change in NPA of focal bank} > \textit{Mean annual change in NPA of peers});$
$= 0,$ if$(\textit{Annual change in NPA of focal bank} \leqslant \textit{Mean annual change in NPA of peers})$

and

Increase in socially referenced reputation for quality at time t
$= (\textit{Mean annual change in NPA of peers-Annual change in NPA of focal bank}),$ if
$(\textit{Annual change in NPA of focal bank} < \textit{Mean annual change in NPA of peers})$
$= 0,$ if$(\textit{Annual change in NPA of focal bank} \geqslant \textit{Mean annual change in NPA of peers})$

Integrity expectations. Hypothesis 4 proposes that high-status organizations will be deterred from illegality if their associates care about their reputation for integrity. To test this hypothesis, we constructed a measure for *reputation for integrity expectations of associates* based on the reputation for integrity of each bank's associated BSE500 firms. A BSE500 firm's own reputation for integrity was assumed to signal its expectations about the integrity of its preferred bankers. Thus we first coded the reputations for integrity of all of the BSE500 firms that disclosed their preferred bankers using the Karmayog data. Karmayog's ratings are based on the mandatory sustainability reporting that each BSE500 firm must include in its annual report.

A bank's associates can be assumed to differ in terms their expectations about integrity: Some might have very high expectations and others, very low. If the expectations of associates are to have an impact on the behavior of a bank, however, they should be widely shared by many of its associates. A good way of quantifying the level of agreement in relation to the integrity expectations variable is to compute a signal to noise ratio, which is the inverse of the coefficient of variation. We therefore divided the mean Karmayog score of all of a bank's BSE500 associates by the standard deviation of the scores to construct the variable. Larger values indicated higher integrity expectations and greater agreement among a bank's BSE500 associates. In additional analysis, we coded this variable more conservatively as the lowest Karmayog score among a bank's BSE500 clients. In a third analysis, we used the mean CSR score of all of the bank's BSE500 clients. Both additional approaches yielded results qualitatively similar to those of the main analysis.

Control variables. We also included a set of firm-level control variables in the regressions. We included *age* and *size* because younger banks might suffer from the liability of newness, which would mandate their sticking to legally acceptable behavior, while younger banks also tend to be of lower status. Age was measured as the natural logarithm of the number of years since each bank's incorporation. Larger banks will tend to have more complaints lodged against them because of their larger consumer base, but larger banks can be of higher status, so, consistent with the conventions of prior research (e.g., Ettlie, Bridges, & O'Keefe, 1984; Mishina et al., 2010), size was quantified as the natural logarithm of the number of employees. Those size and status measures were highly correlated (.47), so it was important to isolate the true effect of status from that of size. Based on techniques applied in prior research (e.g., Brown & Perry, 1994; Mishina et al., 2010), we consequently partialled out the common variance between the two by regressing the status measure (the Bonacich centrality scores) against the size measure (the natural logarithm of the number of employees) and using the residual from that model as a true measure of size uncorrelated with status. In an additional analysis, we regressed size against status and used that residual as an indicator of status uncorrelated with size. The results of the two approaches were consistent.

Prior financial performance could also influence the number of complaints if a bank were to feel compelled to improve its ROA by recovering NPA through illegal means. Indeed, Indian firms with better performance can better afford to pay their recovery agents well, promoting illegality. We included *ROA* in the analysis to control for each bank's prior financial performance.

The Banking Ombudsman's stringent complaint reporting standards minimize over-reporting, but underreporting is more likely for some organizations than for others. Media attention to a bank's illegality is the primary mechanism minimizing underreporting. The findings of prior research on the relationship

between media attention and corporate illegality (Greve et al., 2010) suggest that media reporting of a bank's illegal loan recovery practices should encourage victims to complain and force the authorities to be more alert about that bank's behavior. One difficulty in coding media attention in India is that there are 22 official languages and none has national stature. The only language with a wider presence is English, and only English newspapers have nationwide circulation. We therefore searched the archives of all of the popular English-language newspapers for mentions of banks' illegal loan recovery practices using the *LexisNexis Academic* database. We identified all of the news reports for each bank, and three coders searched the reports independently using the key words "harassment" (and various synonyms such as "torment," "torture," "intimidate," etc.), "loan recovery" (including "NPA recovery," "asset recovery," "seize," etc.), and "agents" (including "agency," "agent," "associates," "allies," etc.). Each coder performed this search for each bank in the sample for each financial year, then read each article to ascertain that it was indeed a negative report relating to loan recovery agents' harassment of the bank's consumers. Fleiss's (1971) κ value was calculated to estimate interrater reliability, yielding a value ($\kappa = .84$) that signified high interrater agreement (Landis & Koch, 1977). We resolved any disagreements by considering only those cases in which at least two of the raters agreed.

We defined the variable *negative media attention* as the number of negative news reports about a particular bank as a proportion of the total number of news reports published about that bank. The maximum number of negative news reports was 59 for the Bank of India, followed by 50 for ICICI Bank and 17 for HDFC Bank.

Another factor that could potentially influence the level of a bank's illegal loan recovery practices might be its success in using legal recovery methods. Securitization is still little used in Indian banking because the regulatory costs are crippling and the market for such securities is not well developed. Nevertheless, some banks continue to experiment with this, although with limited success. We therefore also included in the analysis the natural logarithm of the total amount of substandard and doubtful loans that a bank securitized in a particular year (*bad assets securitized*), to control for success in recovering poor loans legally.

A bank's reputation for socially responsible behavior was another control, since a good reputation might increase the riskiness of illegal loan recovery practices. In India, a bank's *commitment to rural areas* can signal its social responsibility (Burgess & Pande, 2005; Burgess, Pande, & Wong, 2005). Opening rural branches (which tend to be relatively unprofitable) is an important indicator in that respect (Kozhikode & Li, 2012). We therefore coded socially responsible banking practices using the proportion of new rural branches in a bank's branch portfolio scaled by the proportion of new rural branches of all other banks in that year. We took a higher value to represent a better reputation for socially responsible behavior than that of a bank's peers. In additional analysis, we used a simpler measure of rural commitment: the proportion of rural branches in a bank's portfolio. This measure produced a similar outcome.

Finally, we included indicator variables to control for year fixed effects, with 2004 as the reference category.

Modeling

The dependent variable was an event count observed annually. Poisson regression is normally used to model such count data. A Poisson model generates consistent coefficient estimates under a wide range of assumptions (Wooldridge, 1997), but when the data are overdispersed it can generate a downwardly biased covariance matrix, leading to small, incorrectly estimated standard errors (Haynes, Thompson, & Wright, 2003). We therefore used negative binomial models, because these can accommodate overdispersion in the dependent variable (Barron, 1992) and have often been used in prior research to analyze overdispersed count data (e.g., Dobbin & Dowd, 1997; Kozhikode & Li, 2012; Zelner, Henisz, & Holburn, 2009).

Generalized estimating equations (GEEs) were the primary specification as a result of their inherent advantages over random effects and fixed effects specifications. Random effects estimators use all of the observations, but they do not account well for unobserved heterogeneity at the group level (i.e., among banks). Fixed effects estimators are better suited to dealing with unobserved heterogeneity at the group level, but at the expense of dropping all observations from groups with no events. In this sample, that would mean dropping more than 120 bank-year combinations (of the total of 396 observations) for which there was not a single complaint during the study period. Generalized estimating equations overcome these limitations: The method is both efficient and accounts for unobserved heterogeneity (Hardin & Hilbe, 2003; Katila & Ahuja, 2002; Liang & Zeger, 1986). Further, standard errors robust

to group-level heteroskedasticity in negative binomial models are available only from GEE specifications (Zelner et al., 2009). Finally, GEEs allow for autocorrelation. We therefore applied a GEE negative binomial estimator with a first-order autoregressive correlation structure (AR1) and heteroskedasticity-consistent standard errors.

RESULTS

Table 1 reports summary statistics and correlations for the study variables. Because a few of the predictor variables were highly intercorrelated, collinearity was a potential problem, especially in the analysis of interaction effects. Applying Cohen, Cohen, West and Aiken's (2003) suggestion, we first mean-centered the variables used in the interactions. Further, we conducted the analysis hierarchically. Finally, we computed collinearity diagnostics for all of the models using the "Collin" routine in the *Stata 12* software package. Table 2 reports the mean variance inflation factors (VIFs) for all of the models. In Models 1–7, the VIF was less than 4, which is well below the mean VIF threshold of 10 suggested in prior research (e.g., Netter, Wasserman, & Kutner, 1985; Pollock, Rindova, & Maggitti, 2008). But in Model 8, the full model, the mean VIF was 10.94, which is slightly above the acceptable threshold. This may be the result of the presence of multiple interactions with the status variable. Hence we interpreted only the coefficients of Models 1–7.

Table 2 also presents the coefficients of the GEE negative binomial models with AR1 error structure and heteroskedasticity-consistent standard errors. Model 1 is the baseline formulation with the control and moderating variables. Models 2–7 test hierarchically the relationships predicted in Hypotheses 1–4. Model 8 is the full model, which includes all of the hypothesized effects.

In Model 1, several of the control variables proved significant. As expected, ROA, increase in historically referenced reputation for quality, and increase in socially referenced reputation for quality all showed significant negative relationships with corporate illegality. Decline in historically referenced reputation for quality had a significant positive correlation with corporate illegality, while decline in socially referenced reputation for quality showed a significant negative correlation. Commitment to rural areas had significant positive predictive power. In that model, the years 2007, 2008, and 2009 had positive and significant coefficients, but the coefficient for 2006 was not significant. Since 2005 was the reference category, this implies that, compared with 2005, significantly more complaints were registered in 2007, 2008, and 2009.

The coefficient for status in Model 2 was highly significant and positive ($p \leqslant .001$). This result supports the contention of Hypothesis 1 that the likelihood of corporate illegality increases with status. A one-unit increase in the status measure predicted a 10% increase in the incidence of harassment complaints against a bank ($Exp[.098] = 1.10$). This provides strong support for Hypothesis 1.

Hypothesis 2 predicted that any positive relationship between status and corporate illegality will strengthen when an organization experiences a steeper decline in its historically referenced reputation for quality. Model 3 tests that hypothesis. In that model, the coefficient of the term representing the interaction between status and decline in historically referenced reputation for quality was positive and significant ($p \leqslant .05$). We assessed the moderating effect of decline in historically referenced reputation for quality on the relationship between status and corporate illegality ([$Exp(.099 \times status + .023 \times status \times decline\ in\ historically\ referenced\ reputation\ for\ quality$)]). When decline in historically referenced reputation for quality was .27 (the mean), a one-unit increase in status increased corporate illegality by about 11%. When decline in historically referenced reputation for quality took the value 1.92 (1*SD* above the mean), a one-unit increase in status increased corporate illegality by about 15% (a net increase of about 4.21 percentage points). Figure 1 illustrates this effect.[3]

Model 4 included a term representing the interaction between status and increase in historically

[3] This figure was produced using the "margins" and "marginsplot" commands in *Stata 12*. In this approach, using the "margins" command, we first obtained predictive margins for theoretically interesting values of the interacting variables with all other variables held at their mean value. In our case, the values that we used for the three moderators were their mean (for low) and 1*SD* above their mean (for high), and the range of values we used for status were from a low of 0 to a high of 1*SD* above the mean (23) in one-unit increments. We then use the "marginsplot" command to graph these predictive margins (predicted number of complaints) from fitted negative binomial models. This technique is ideal to interpret interaction effects in nonlinear regressions such as negative binomial, Poisson, logit, and hazard rate models (Mitchell, 2012). Because these two commands are inbuilt in *Stata 12* and above, they are more reliable than other user-written *Stata* commands.

TABLE 1
Summary Statistics and Correlation Matrix

	Variables	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12
1	Corporate illegality	2.30	66.00												
2	Age	3.89	0.86	0.14											
3	Size (residual)	0.00	2.25	0.05	0.54										
4	Return on assets	1.21	1.70	−0.01	−0.04	−0.23									
5	Negative media attention	0.03	0.20	0.15	0.07	0.02	−0.01								
6	Bad assets securitized	3.50	3.78	0.31	0.50	0.53	−0.09	0.15							
7	Commitment to rural areas	0.80	23.41	0.02	0.09	0.01	0.01	0.00	−0.04						
8	Increase in historically referenced reputation for quality	1.81	4.49	−0.07	−0.09	−0.21	−0.15	−0.02	−0.12	−0.01					
9	Decline in historically referenced reputation for quality	0.27	1.65	−0.01	−0.04	−0.10	0.00	−0.02	−0.04	0.00	−0.07				
10	Increase in socially referenced reputation for quality	2.98	2.48	−0.26	−0.25	−0.24	0.12	−0.10	−0.35	0.04	0.01	−0.14			
11	Decline in socially referenced reputation for quality	0.54	3.41	−0.02	−0.06	−0.18	−0.13	−0.02	−0.09	0.00	0.17	0.41	−0.19		
12	Reputation for integrity expectations of associates	1.37	0.76	0.28	0.26	0.12	0.02	0.18	0.35	0.02	−0.12	−0.02	−0.40	−0.04	
13	Status	7.77	15.04	0.64	0.30	0.00	0.00	0.34	0.42	0.02	−0.10	−0.04	−0.37	−0.05	0.55

Note: $n = 396$; all correlations $\geqslant 0.1$ are significant at the $p \leqslant .05$ level of confidence.

TABLE 2
Coefficients of GEE Negative Binomial Estimates Predicting Corporate Illegality

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Age	0.846	−0.124	−0.153	−0.122	−0.140	−0.117	−0.114	−0.119
	(0.92)	(0.23)	(0.22)	(0.22)	(0.23)	(0.24)	(0.22)	(0.21)
Size (residual)	−0.093	0.885***	0.932***	0.901***	0.907***	0.881***	0.852***	0.902***
	(0.20)	(0.12)	(0.12)	(0.11)	(0.12)	(0.12)	(0.12)	(0.12)
Return on assets	−0.190***	0.268†	0.312*	0.271†	0.294*	0.259†	0.209	0.228
	(0.05)	(0.14)	(0.15)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Negative media attention	−0.146	−0.301†	−0.179	−0.165	−0.216	−0.313†	−0.319*	−0.161
	(0.49)	(0.17)	(0.16)	(0.17)	(0.15)	(0.18)	(0.15)	(0.18)
Bad assets securitized	0.053	0.056	0.050	0.054	0.052	0.058	0.052	0.052
	(0.05)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)
Commitment to rural areas	0.014*	0.006	0.006	0.006	0.006	0.006	0.006	0.006
	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Increase in historically referenced reputation for quality	−0.046***	−0.202	−0.182	−0.214*	−0.200	−0.202	−0.185	−0.162
	(0.01)	(0.12)	(0.12)	(0.10)	(0.13)	(0.12)	(0.12)	(0.10)
Decline in historically referenced reputation for quality	0.052**	0.032	0.199†	0.045	0.055	0.031	0.034	0.214*
	(0.02)	(0.07)	(0.11)	(0.07)	(0.09)	(0.07)	(0.07)	(0.10)
Increase in socially referenced reputation for quality	−0.081***	0.035	0.034	0.026	0.096	0.038	0.034	0.041
	(0.02)	(0.05)	(0.05)	(0.04)	(0.09)	(0.05)	(0.05)	(0.06)
Decline in socially referenced reputation for quality	−0.093*	−0.183**	−0.192**	−0.197***	−0.191**	−0.163**	−0.147**	−0.105*
	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)	(0.05)	(0.06)	(0.05)
Reputation for integrity expectations of associates	−0.371	−0.348**	−0.336**	−0.355**	−0.343**	−0.344**	−0.203*	−0.191*
	(0.23)	(0.13)	(0.13)	(0.13)	(0.13)	(0.12)	(0.09)	(0.09)
Status (Hypothesis 1)		0.098***	0.099***	0.086***	0.100***	0.103***	0.115***	0.123***
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Status × Decline in historically referenced reputation for quality (Hypothesis 2)			0.023*					0.023*
			(0.01)					(0.01)
Status × Increase in historically referenced reputation for quality (Hypothesis 2)				−0.013***				−0.006
				(0.00)				(0.00)
Status × Decline in socially referenced reputation for quality (Hypothesis 3)					0.013**			0.001
					(0.00)			(0.01)
Status × Increase in socially referenced reputation for quality (Hypothesis 3)						0.002		0.007
						(0.00)		(0.00)
							−0.021**	−0.019*
							(0.01)	(0.01)

TABLE 2
(Continued)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Status × Reputation for integrity expectations of associates (Hypothesis 4)								0.410
Constant	−0.870	1.063	1.076†	1.211*	1.094†	0.940	0.722	(0.65)
	(3.81)	(0.67)	(0.64)	(0.61)	(0.65)	(0.71)	(0.67)	
χ^2	1,186.88	551.21	577.30	672.37	623.34	551.79	601.49	1,267.75
Mean VIF	1.62	1.84	2.34	2.77	3.78	2.28	2.10	1.94

Note: n = 393 bank-year observations; year fixed effects included in all models; AR1 error structure; robust standard errors in parentheses.
† $p \leqslant .1$
* $p \leqslant .05$
** $p \leqslant .01$
*** $p \leqslant .001$ (two-tailed tests)

referenced reputation for quality. This term's coefficient was negative and highly significant ($p \leqslant .001$). So, while a historically referenced decrease in a bank's financial asset quality predicted an increased tendency to collect its debts illegally, a historically referenced increase in financial asset quality predicted a decrease in that tendency.

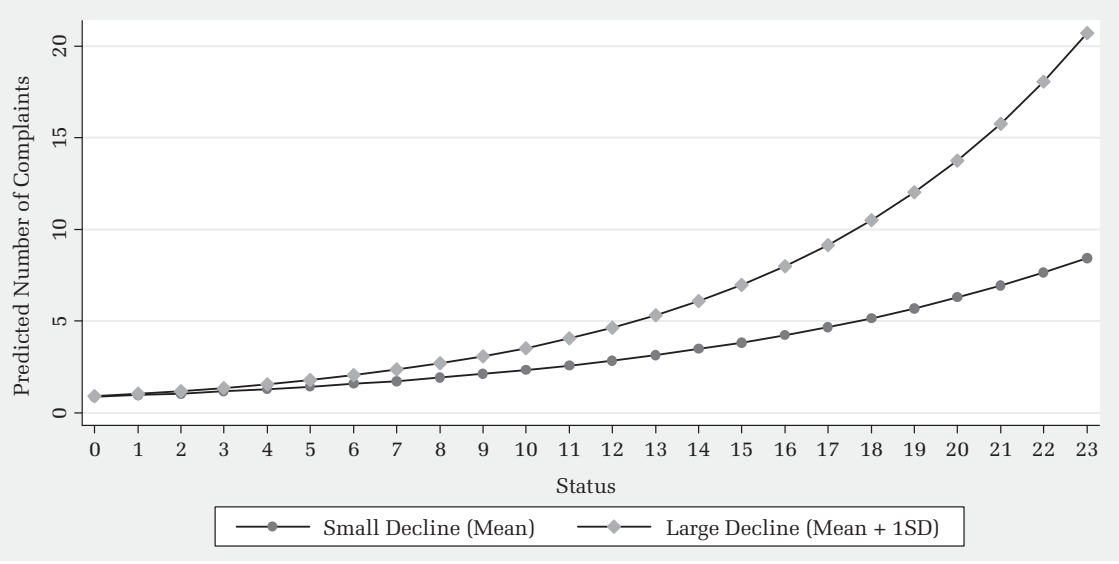
Hypothesis 3 predicted that any positive relationship between status and corporate illegality should strengthen when an organization's reputation for quality falls behind those of its peers. Model 5 tests that hypothesis. The coefficient for the interaction between status and decrease in socially referenced reputation for quality was positive and significant ($p \leqslant .01$). This lends strong support to Hypothesis 3. Figure 2 illustrates this effect. When decline in historically referenced reputation for quality was .54 (the mean), a one-unit increase in status predicted an 11.33% increase in the illegality variable. When decline in historically referenced reputation for quality was 1*SD* above the mean (3.95), a one-unit increase in status predicted a 16.25% increase in corporate illegality (a net increase of about 5 percentage points).

Model 6 generated a coefficient for a term representing an interaction between status and increase in socially referenced reputation for quality, but it was not statistically significant.

Model 7 tested Hypothesis 4, which predicted that the criminal acts of high-status banks should be less frequent if the banks' associates were to value a reputation for integrity. In support of that hypothesis, the coefficient for a term representing the interaction between status and reputation for integrity expectations of associates was negative and significant ($p \leqslant .01$). A high-status bank will indeed tend to rein in illegal loan recovery practices if its high-status associates value a reputation for integrity. Figure 3 illustrates this effect. When reputation for integrity expectations of associates was 1.37 (the mean), a one-unit increase in status increased corporate illegality by about 12.17%. When the integrity expectations variable took a value 1*SD* above the mean (2.13), a one-unit increase in status increased corporate illegality by about 10.39% (a net decrease of about 1.78 percentage points).

Model 8 is the full model. In that model, the hypothesized effects of Hypotheses 1, 2, and 4 all proved significant and as predicted, but the effect of Hypothesis 3 was not significant. This should be interpreted in light of the multicollinearity in the full model introduced by the inclusion of five

FIGURE 1
Effects of Status and Decline in Historically Referenced Reputation for Quality on Corporate Illegality



interaction effects. Further probing revealed a positive and significant interaction between status and decline in socially referenced reputation for quality ($p \leqslant .01$) when the interaction between status and decline in historically referenced reputation for quality was not included in the model. Overall, Model 8 lends robustness to the conclusions about Hypotheses 1, 2, and 4, tested individually.

Robustness Checks

Testing for endogeneity. The presence of endogeneous regressors can lead to biased estimates. Endogeneity generally arises from unobserved heterogeneity, measurement error, or simultaneity (Bascle, 2008). We took three measures to address unobserved heterogeneity. First, the use of GEE models that accommodate serial autocorrelation

FIGURE 2
Effects of Status and Decline in Socially Referenced Reputation for Quality on Corporate Illegality

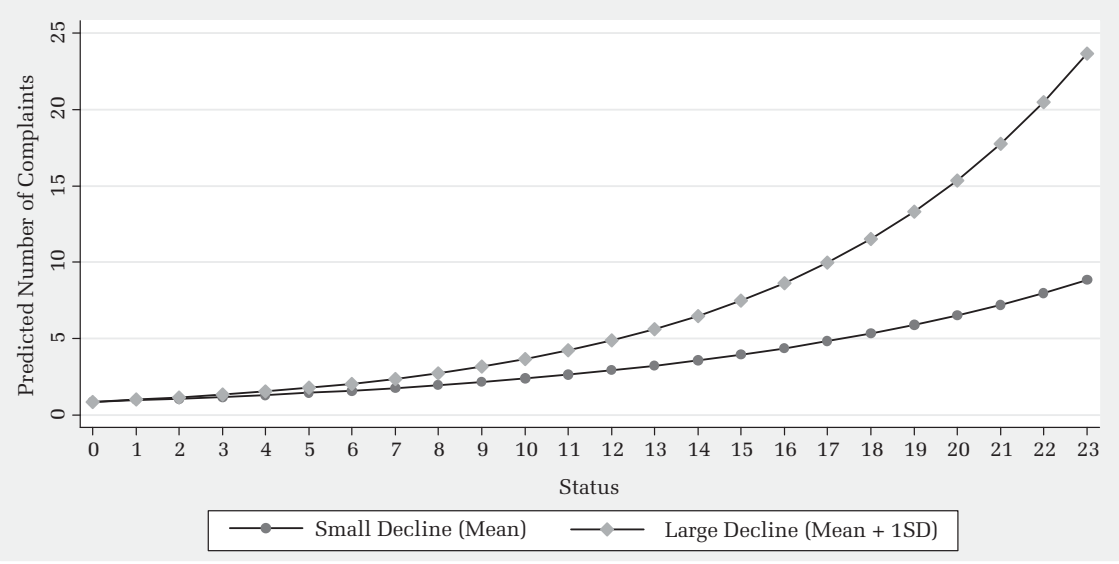
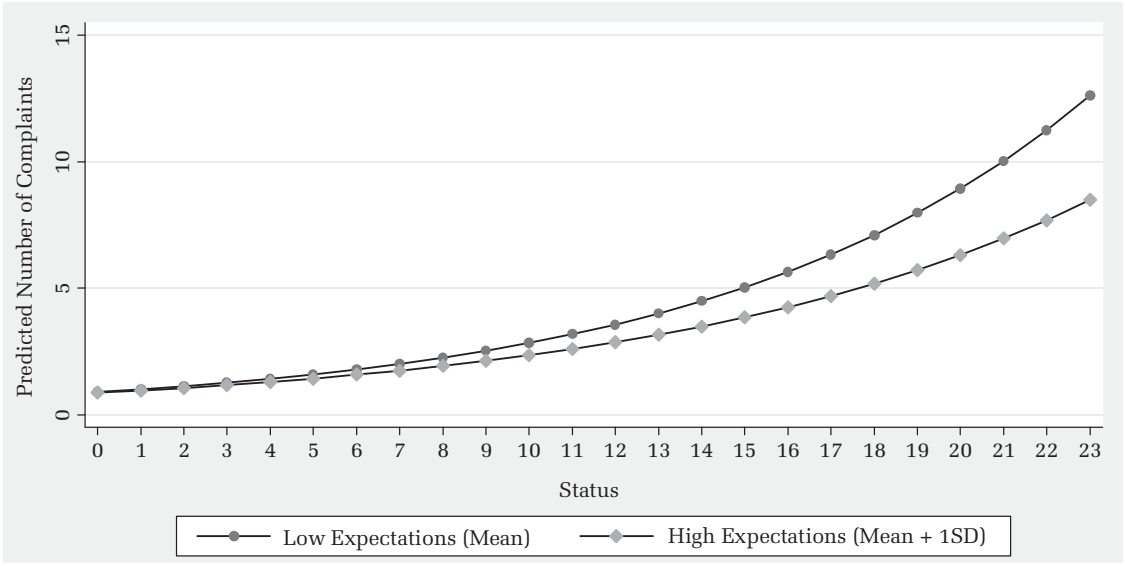


FIGURE 3
Effects of Status and Associates' Integrity Expectations on Corporate Illegality



and produce heteroskedasticity-consistent standard errors to a great extent reduces endogeneity concerns arising from unobserved group-level heterogeneity (Katila & Ahuja, 2002). Second, including several controls for alternative explanations addressed endogeneity concerns arising from omitted variables. For example, if both status and illegality are driven by size, not including size as a control can lead to omitted variable bias, but including it limits this problem. Finally, we evaluated additional models that included a lagged dependent variable as an additional regressor. Including lagged dependent variables can limit concerns about endogeneity arising from unobserved heterogeneity (Heckman & Borjas, 1980; Katila & Ahuja, 2002). Because no data on illegal loan recovery practices were available prior to 2005, including a lagged dependent variable reduced the sample to 314 bank-year observations. These analyses are available from the authors on request. The lagged dependent variable was significant in several models, but it did not affect the results. All four hypothesized effects were significant and along the predicted directions. Hence those analyses lent additional robustness to the findings.

Errors in measuring status or the controls for alternate explanations might also generate endogeneity. In this study, status was quantified using Bonacich centrality, a well-established measure for status, but in additional analyses we tested the total number of BSE500 firms listing a focal bank among their preferred bankers each year as an alternative (Phillips & Zuckerman, 2001). A second measure was the residual from a regression of size against status. That measure was intended to help to isolate the effect of status uninfluenced by size. The results with both of these alternative status measures were consistent with those reported. Details of these analyses are also available on request.

The third concern is about endogeneity resulting from simultaneity: status influencing illegality, but also illegality influencing status. We evaluated two-stage least squares (2SLS) instrumental variable regressions to address this concern. With five interaction effects, however, if status is endogenous, those interaction effects also become endogenous. This necessitates using as many instruments. The products of the instrument for status and the moderating variables can serve as instruments, but it will result in substantial efficiency loss. Econometricians suggest first testing whether a variable being considered endogenous actually *is* endogenous (cf. Wooldridge, 2003: 527). Accordingly, we evaluated a 2SLS regression using the number of years for which a bank had been operating in Mumbai and whether a bank was listed on the BSE as instruments. A valid instrument is one that is strongly related to the endogenous variables, but weakly related (only through the instrumented variable) or unrelated to the dependent variable (Murray, 2006). Mumbai is considered to be the corporate capital of India: Over a third of the BSE500 firms are headquartered there. A bank that had been operating for

longer in Mumbai was assumed to have had more interaction with those high-profile firms, giving it a greater possibility of being enlisted as preferred banker. Similarly, a bank that was itself listed on the BSE would be expected to have greater credibility among the BSE500 firms. The first-stage regression (R^2 = .62; adjusted R^2 = .61) and the model's highly significant F statistic (F = 47.38, $p \leqslant .001$) indicate that the instruments were indeed valid. Using two instruments also allowed testing for the overidentifying restrictions, which identify whether or not these instruments were indeed exogenous (Murray, 2006). The Sargan test for overidentification restriction was not significant (p = .2913). The Basmann test was also not significant (p = .3012). We were therefore unable to reject the null hypothesis that the instruments were exogenous.

In the second stage of the 2SLS regression, the instrumented status variable had a positive and significant coefficient ($p \leqslant .001$), providing additional strong support for Hypothesis 1. A Durbin-Wu-Hoffman test for endogeneity was unable to reject the null hypothesis that the status measure was exogenous ($F(1,81) = .51$, $p = .47$), minimizing concerns about the endogeneity of the status measure (the key independent variable in this study).

While these tests indicate that status, the main independent variable, is exogenous, it remains possible that some of the control variables could be endogenous. Recent work in applied statistics suggests that even when some of the control variables are endogenous, as long as the conditional independence assumption holds in a regression model, researchers can confidently make claims about the significance of other variables of interest (Lechner, 2008)—i.e., as long as the independent variance of each control variable is partialled out, a significant relationship between a focal independent variable and the dependent variable can still be concluded. Because the multiple regression framework achieves this (Abdi, 2003), it is generally not a problem to interpret the coefficient of an exogenous independent variable even if some of the controls are endogenous. However, when the correlation between the independent variable of interest and any given control variable is high, that might be a problem (Lechner, 2008). We therefore performed additional analysis in which the common variance between all of the control variables and status was first partialled out by regressing the status measure (Bonacich centrality score) against each of the control variables (size, age, negative media attention, ROA, bad assets securitized, and commitment to rural areas). We used the residuals from these regressions as a more accurate measure of each control variable (e.g., Brown & Perry, 1994; Mishina et al., 2010). We then used these measures of the control variables uncorrelated with status in GEE models predicting corporate illegality. The results were again consistent with those reported, further demonstrating the robustness of the results. Details of these analyses are also available from the authors on request.

Controlling for reporting bias. An important concern about crime data is that it is hard to rule out over- and underreporting. As has been explained, the Banking Ombudsman's stringent criteria for recording complaints are designed to limit overreporting, but victims might be more willing to come forward and report the illegal activities of certain organizations than those of others. Borrowers may well expect high-status banks to exhibit more integrity than those of low status, making the borrowers more willing to promptly report any illegal loan recovery practices inflicted by a high-status organization. The observed positive relationship between status and corporate illegality would then be attributable in part to hypersensitivity among clients.

To establish that the results are not explained by hypersensitivity, we included the number of complaints that reflected a service flaw rather than an illegal act as a control in an additional analysis. These were mostly deposit-related and remittance-related complaints, or complaints about failure to fulfill a commitment. This variable was not lagged, because the objective was to control for a bank's baseline complaint rate and not any causal relationship. The results of these analyses were again consistent with those reported, suggesting that hypersensitivity (i.e., reporting biases) were not driving the results. These results are available from the authors on request.

A final test for reporting bias involved transforming the dependent variable into a ratio of complaints normalized by size (i.e., *loan recovery harassment complaints ÷ natural log of the number of employees*). This produced a continuous dependent variable, so we used a GEE model with a Gaussian distribution and an identity link (e.g., Wade, Porac, Pollock, & Graffin, 2006). All of the hypothesized effects were supported in the hierarchical models, suggesting that reporting bias was not a concern in this study. These results are also available on request.

Further probing into the mechanism. We generated our hypotheses based on the argument that insecurity created by a potential loss of status explains why status is linked with illegal activity. A threat of status loss is sufficient to establish that motivation, but is financial asset quality indeed tied to the downward status mobility of a bank? Also, is a bank engaging in illegal loan recovery practices because it is inconsequential to its status, or can illegality also result in a status loss? Answering these two questions will help us to ensure that (a) the motivation to engage in illegality actually involves the loss aversion that we proposed, and (b) illegality is indeed a risky behavior that can result in status loss. To find out, in additional analyses we examined whether or not an annual growth in the bank's bad assets (both historically referenced and socially referenced) and its engagement in illegal loan recovery practices resulted in significant status loss. Since we were interested in status loss and not general mobility, we coded status loss as follows:

$$\begin{aligned}&\textit{Status loss at } t\\&= \big((\textit{Normalized Bonacich centrality}_{t-1} - \textit{Normalized Bonacich centrality}_{t})\big/\\&\textit{Normalized Bonacich centrally}_{t-1}\big),\ \text{if}\big((\textit{Normalized Bonacich centrality}_{t} <\\&\textit{Normalized Bonacich centrality}_{t-1}\big)\\&= 0,\ \text{if}\big(\textit{Normalized Bonacich centrality}_{t} \geqslant \textit{Normalized Bonacich centrally}_{t-1}\big)\end{aligned}$$

Owing to the lower bound of 0 for this measure, we estimated a random effects tobit model ("xttobit" in *Stata 12*), which accommodates truncation in the dependent variable.

Our tobit models revealed that a bank's historically referenced growth in bad assets did not result in significant status loss for it, but its socially referenced growth in bad assets did indeed result in significant status loss in the subsequent year. This supports the argument that a decline in reputation for quality influences status loss and so supports the hypothesized mechanism.

The analysis further revealed that illegal means of bad asset recovery (harassment of borrowers) resulted in significant status loss in the subsequent year. This supports the argument that corporate illegality is a risky action that can result in a status downgrade. These results too are available from the authors on request.

DISCUSSION AND CONCLUSION

We sought to understand why high-status organizations engage in corporate illegality given the long-standing claim of status theory that high-status organizations are relatively secure in their positions. Toward this, we considered the possibility that status theory might have overestimated the relative security of high-status organizations. An inability to meet associates' expectations of reputation for quality, we argued, might be the source of insecurity among high-status organizations. The fear of status loss might prompt a high-status organization to engage in corporate illegality. A high-status organization may even assume that it will be able to divert its associates' attention away from any illegal acts, because it used them only as a means of meeting the associates' expectations of reputation for quality: an attribute highly relevant to that audience (Bandura et al., 1996; Greve et al., 2010). However, we argued that some associates might care that the high-status organization uses only ethical means to meet their expectations of reputation for quality, which would mitigate the organization's tendency to engage in illegality. Our findings show that high-status banks are, in fact, insecure and are more likely than others to resort to illegal recovery practices. This is especially so when a high-status bank has experienced a decline in financial asset quality or has fallen behind its peers in that regard. However, the relationship between status and illegal recovery practices is weaker when the associates of a high-status bank are rated high on CSR.

Theoretical Contributions and Implications for Research

Our study offers the following contributions to status theory. It emphasizes the need to reconsider status theory's conventional assumptions about the relative security of high-status organizations. We show that the fear of status loss can prompt

high-status organizations to resort to corporate illegality. Status theory posits that, once established, status positions become rigidified to the extent that an organization's affiliations with high-status others become more salient than its prior demonstrations of quality in helping it to retain its position in the status hierarchy (Phillips & Zuckerman, 2001). Our study shows that a reputation for quality, which is underemphasized in status theory, contributes to the insecurity of a high-status organization. This is particularly the case when associates have direct access to the high-status organization's actions (Podolny, 2005), thus allowing it less time in which to remedy a mistake. Accordingly, in our study, we find that insecurity in relation to their status position prompted high-status banks to engage in illegal loan recovery practices and that any damage to their reputation for financial asset quality magnified this effect. Whereas prior research on corporate illegality has found that organizations are likely to engage in illegality when outcomes exceed aspirations (Harris & Bromiley, 2007; Mishina et al., 2010), we find that, for high-status commercial banks in India, the tendency to engage in illegality is stronger when financial asset quality declines relative to historical financial asset quality and relative to the financial asset quality of banks within the same status bracket. This underscores our theory that the pressure to meet associates' expectations generates a sense of insecurity and that fear of status loss can drive high-status firms to resort to illegality.

These findings have implications for status research. First, high-status organizations cannot take their position in the status hierarchy for granted, and in fact they do not do so. Our findings show that they do not hesitate to engage in corporate illegality to meet their affiliates' expectations of reputation for financial asset quality. Second, the results also show that an organization's reputation for quality is at least as important as its status position. Upholding a good reputation for quality might therefore be more important for high-status firms than has previously been assumed in status theory.

Next, our study adds to research in the nexus of reputation and status (Ertug & Castellucci, 2013; Jensen & Roy, 2008; Jensen et al., 2012). Quality is the only attribute of reputation that is highlighted in status theory, but recent status research shows that reputation for other attributes, when they are considered relevant, may affect partner choice decisions (Jensen & Roy, 2008). These findings contribute to that discussion by showing how the reputation expectations of affiliates can condition the behavior of high-status organizations. A reputation for integrity is one attribute that can also be important, and if this is the case, it can reduce the temptation to resort to illegality. Overall, the findings draw attention to how organizations alter their behaviors based on their associates' role expectations.

Finally, prior research has emphasized only the many benefits of occupying a high-status position, but this study draws attention to some of the attendant burdens and their potential detrimental effects. Research into status-based market competition has emphasized how, in addition to the cost advantages, high-status organizations often fetch a higher premium for their offerings and garner superior resource commitments than do organizations of lower status (Benjamin & Podolny 1999; Podolny, 1993; Pollock & Rindova, 2003). However, there are hardly any studies in this stream that have examined whether there are any negative consequences of occupying a high-status position. Part of the reason for this lack of attention could be that scholars in this stream of research assume that high-status organizations are relatively secure in their status positions (Park & Podolny, 2000; Phillips & Zuckerman, 2001). Our study suggests that high-status organizations might obtain all of these advantages because their potential associates and external audience infer underlying quality from their affiliation with high-status others. But all of these advantages cannot be taken to mean that high-status organizations are secure in their position within the status hierarchy; rather, they can sustain their position only by continuing to meet their associates' expectations. These findings draw attention to the possibility that the advantages of occupying a high-status position have associated costs, the strain of which may persuade a high-status firm to consider risky acts—even illegal acts. Relatedly, this study complements recent research on the dark side of trust (e.g., Janowicz-Panjaitan & Krishnan, 2009; Krishnan, Martin, & Noorderhaven, 2006) by hinting at the possibility that key associates' unrealistic performance expectations could be a source of trust violations.

Limitations and Future Research

First, although these findings draw attention to how high-status organizations alter their behavior based on their associates' role expectations, they do

not shed light on how high-status organizations deal simultaneously with conflicting role expectations. Future research might fruitfully examine whether a reputation for integrity might indeed buffer a high-status organization against any damage to its reputation for quality.

Second, and relatedly, our additional analysis reveals that the need to maintain reputation for quality is indeed the source of insecurity among high-status organizations, because changes to reputation for quality indeed influenced status mobility among commercial banks in India. Our findings revealed that, in spite of such pressures to meet expectations of reputation for financial asset quality, commercial banks in India refrained from illegality when integrity was an important attribute for associates. Future research might examine in greater detail what conditions other than their peers' integrity concerns deter high-status organizations from resorting to illegality to maintain their positions.

Finally, the financial asset quality of a bank was also appropriate in our context because its decline was the main driver of illegal loan recovery practices among high-status banks in India. Although financial asset quality aptly reflected underlying quality and was highly relevant to our context, other aspects of quality might be more relevant to other contexts, for example product quality might be an apt reflection of underlying quality in the consumer goods industries. Research is certainly required to extend the principles demonstrated here to other industries.

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