

CSR, moral licensing and organizational misconduct: a conceptual review

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63

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Abstract

Purpose – The purpose of this paper is to conceptualize how past corporate social responsibility (CSR) affects the occurrence of organizational misconduct by the means of moral licensing.

Design/methodology/approach – To this end, the authors conduct a conceptual review and develop a framework illustrating how moral credits and moral credentials (moral licensing) may institutionalize irresponsibility and lead to subsequent misconduct.

Findings – The authors propose a conceptual framework that describes the relationship between past CSR and organizational misconduct by the means of moral licensing. Based on initial literature-based findings, this paper provides confirmatory evidence for the authors' framework and illustrates that past CSR might be used as a moral licensing tool that eventually fosters the occurrence of organizational misconduct.

Research limitations/implications – The authors propose future researchers account for the moral licensing effect when examining the antecedents of misconduct and explore the potential moderators of this effect.

Practical implications – The authors recommend that organizations establish management control systems that specifically address the issue of moral licensing when evaluating CSR initiatives. The authors also propose that organizations should adhere to a consistent CSR strategy that potentially fosters the selection of moral leaders who are not prone to moral licensing.

Originality/value – To the best of the authors' knowledge, this paper is the first to connect corporate social responsibility, moral licensing and organizational misconduct from a conceptual perspective.

Keywords CSR, Institutional theory, Management control, Moral licensing, Organizational misconduct

Paper type Conceptual paper

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Introduction

Recently, the topic of organizational misconduct has received increased academic interest. This has resulted in the examination of both the antecedents and the consequences of organizational misconduct, although the latter has been much more thoroughly discussed (Greve, Palmer, & Pozner, 2010; Paruchuri & Misangyi, 2015; Pozner, 2008). This research interest does not come out of the blue as organizational misconduct has previously been potentially associated with various adverse effects for both the organizations associated with the misconduct and wider society (Bouzzine & Lueg, 2020, 2022; Dey, Caulfield, & Ghosh, 2018).

When looking at the antecedents, one can distinguish organizational and individual causes eventually leading to misconduct. Thereby, organizational characteristics such as compliance practices and ethical climate are seen as major drivers of misconduct, whereas characteristics of individuals have received less academic attention (Andreoli & Lefkowitz, 2009). More recently, research has increasingly questioned this view and posited that leaders' personality traits and cognitive biases also matter in that regard (van Scotter & Roglio, 2020).

Within the set of cognitive biases affecting organizational misconduct, the notion of *moral licensing*, in which individuals who have previously behaved ethically eventually use this past moral behavior as a license to later act unethically (Blanken, van de Ven, & Zeelenberg, 2015), has emerged as a salient concept. Even though this bias is individual, it might translate into organizational behavior if leading organizational officials are subject to it (Blanken *et al.*, 2015; Lin, Ma, & Johnson, 2016).

Plentiful anecdotal cases illustrate how organizations have initially behaved in a morally superior manner and later engaged in severe misconduct. One prominent example is that of the Volkswagen (VW) diesel emissions scandal (Dieselgate) in which VW implemented a software-based cheating device in diesel cars that undermined emissions testing and led to substantial human, financial and climate damage (Bouzzine & Lueg, 2020; Díaz Díaz *et al.*, 2020; Fracarolli Nunes & Lee Park, 2016; Lin, Ho, Lee, & Ng, 2020; Zhang, Atwal, & Kaiser, 2021). This misconduct was preceded by a sustainability reporting outlining VW's substantial effort to green its car fleet which was well-received by stakeholders (Allam, Scagnelli, & Corazza, 2020). Similar behavior was observed in the case of Enron. Former Enron CEO Kenneth Lay invested heavily in personal and organizational social initiatives (donations, university chair funding) within the corporate social responsibility (CSR) strategy, became a leading figure in US philanthropy and accumulated significant moral credit (Ormiston & Wong, 2013). Eventually, this moral credit was later exchanged to engage in irresponsible behavior that led to one of the USA's biggest corporate fraud scandals (Oppel & Sorkin, 2001). Despite being regularly associated with greater sustainability (Klotz & Bolino, 2013), these cases illustrate that past CSR is not a guarantee of future CSR. Rather, organizations might even be incentivized to engage in misconduct as a consequence. This behavior is in contrast to moral reasoning, a construct that determines that individuals act in line with their moral judgment. That is, a person with a morally responsible identity will probably not use past good deeds as a license to act irresponsibly in the future (Reynolds & Ceranic, 2007; Weaver, 2006).

Therefore, the notion of moral licensing closely relates to the vast body of literature dealing with the relationship between CSR and irresponsibility. Several authors have already gone after the question of how CSR eventually leads to irresponsibility and provided compelling evidence for this relationship (Kang, Germann, & Grewal, 2016; Kotchen & Moon, 2012; Price & Sun, 2017; Riera & Iborra, 2017; Strike, Gao, & Bansal, 2006). In this paper, we extend this knowledge by introducing moral licensing as a mechanism that

explains why CSR and irresponsibility are potentially related and how this ultimately might lead to organizational misconduct.

Therefore, this conceptual review aims to answer the following research questions:

RQ1. How might CSR affect the emergence of organizational misconduct through the means of moral licensing?

RQ2. How might organizations prevent CSR from being used as a moral license to engage in misconduct?

Therefore, we conduct a conceptual review and consolidate the knowledge on the relationship between CSR as a means of moral licensing and organizational misconduct and develop the underlying conceptual mechanism based on moral credits and moral credentials. Then, we use this framework to suggest future areas of research and recommendations to practitioners.

Conceptual review design

This paper follows the principles of a conceptual review as proposed by [Hulland \(2020\)](#). Conceptual reviews aim to identify research gaps by reviewing the extant literature and proposing agendas for future research. One special aim of conceptual reviews is to draw academic interest to areas that are underresearched so far ([Yadav, 2010](#)).

[Jaakkola \(2020\)](#) describes four different types of conceptual reviews: theory synthesis, theory adaptation, typology and model. For this paper, the notion of “model” is of particular relevance. Model papers seek to construct frameworks that help to better understand the antecedents and outcomes of phenomena by illustrating the causal linkages and mechanisms in place.

We do so by first conceptualizing the general phenomenon of moral licensing and its role in organizational misconduct by illustrating the mechanisms of moral credits and moral credentials and linking these effects to institutional theory. Subsequently, we underpin this framework with initial empirical evidence. Lastly, we use the framework and initial evidence to identify research gaps and provide recommendations to practitioners.

Moral licensing perspective on organizational misconduct

Moral licensing is a cognitive bias. Its theoretical concept was originally discussed in psychology research but it has increasingly found its way into management research ([Blanken et al., 2015](#); [Greene & Low, 2014](#); [Klotz & Bolino, 2013](#)). The concept argues that an individual’s past behavior influences their future behavior. If this past behavior is deemed “good” and “socially desirable,” the individual may eventually consider the past behavior as permission to act less responsibly in the future ([Kouchaki, 2011](#)).

There are two underlying, potentially complementary, mechanisms behind this bias: moral credit and moral credentials. We will outline in the following how the – up to now – purely individual-based, psychological theory of moral licensing has an institutionalizing effect and thereby becomes applicable on an organizational level. To this end, we refer to structuration theory as it explains how individual agency becomes an organizational structure ([Giddens, 1984](#)). Structuration theory purports that the actions of individuals (*systems*) institutionalize by being embedded in permanent habits or other organizational members (*structures*). In the following, we explain the properties of our suggested framework for moral licensing (see [Figure 1](#)).

In the first main mechanism, individual leaders obtain *moral credit* for past good conduct, carried out either by themselves or by their organization ([Efron & Conway, 2015](#)).

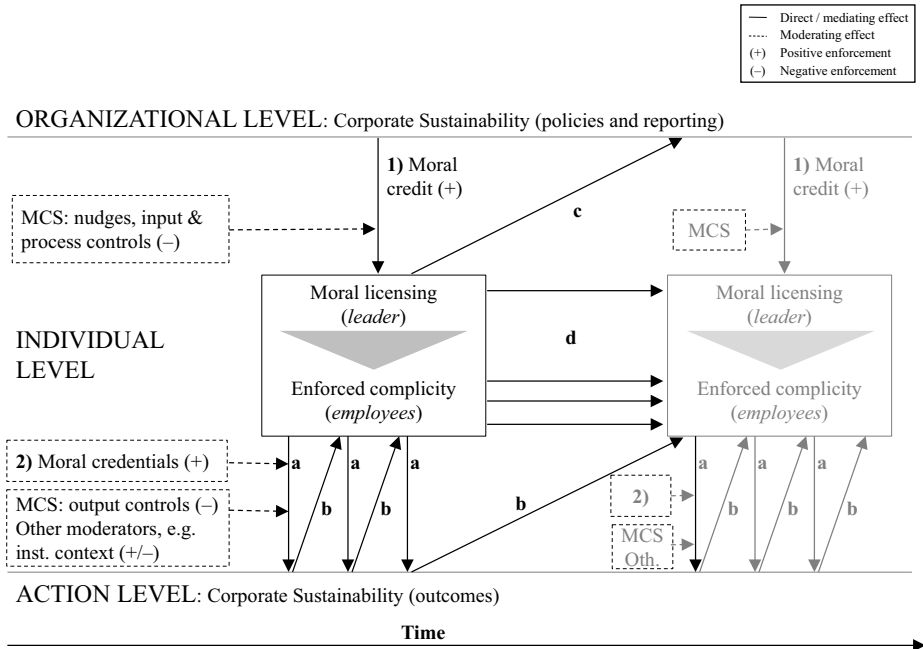


Figure 1.
Institutionalization of misconduct through moral licensing

Notes: The figure displays the interrelation of moral licensing, CSR and misconduct and illustrates how misconduct institutionalizes in an organization over time. The solid line describes direct/ mediating effects and the dashed line moderating effects. (+) describes positive effects enforcing misconduct and (-) negative effects counterbalancing misconduct. The letters a–d describe the submechanisms in the institutionalization of misconduct: (a) misconduct by individuals; (b) reinforcement of misconduct; (c) reinforcement of CS and d) learning how to get away with misconduct

For the misbehaving individual, obtaining a moral license prior to their misconduct might reduce damage to their personal reputation and encourage forgiveness, therefore limiting the misconduct’s potentially detrimental effects and enhancing its attractiveness (Klotz & Bolino, 2013; Wang & Chan, 2019). Once the precondition of moral credit exists, some leaders are prone to the bias that this moral credit can be exchanged for or weighted against misconduct in the future. We illustrated this anecdotally with the “Dieselgate” case, where past environmentally conscious conduct seemed to justify later dishonesty. After this point, the mechanism goes beyond the individual bias and institutionalizes at the level of the organization in two ways. Employees observe the misconduct of their leaders and often must be part of it to make it successful. Because of the leader’s power over their employees, they can enforce complicity by engaging in abusive leadership and supervision (i.e. verbal and nonverbal behavior perceived as abusive by the employees) and pressure their employees into complicit behavior that enables or even fosters misconduct (Kong, Xin, Xu, Li, & Xu, 2022; Lin *et al.*, 2016; Mackey, Frieder, Brees, & Martinko, 2017). Thereby, organizational leaders’ high status inside and outside the organization eventually enhances the moral licensing effect as they receive substantial attention from their social environments, making leaders with past good deeds that are well-perceived by the

stakeholders even more prone to the obtainment of a moral license to misconduct (Lasarov & Hoffmann, 2020; Polman, Pettit, & Wiesenfeld, 2013). A counterbalancing, moderating effect stems from management control systems (MCS). MCS might reduce the transformation of moral credit at this stage through “nudging,” for example, by highlighting the moral duties of leaders by constantly reminding them of the moral licensing risk and enhancing the commitment to moral behavior (Pietroni & Hughes, 2016; Vervloet *et al.*, 2012; Vlaev, King, Dolan, & Darzi, 2016), input controls, such as thoroughly vetting the achievements of appointed leaders, or process controls, such as precise prescriptions on how budgets may be spent (Olson, Nelson, & Parayitam, 2006). When leaders overrule the governance established by MCS, they eventually institutionalize their misconduct.

The second main mechanism is the *moral credentials* granted by stakeholders to the organization. It is not a direct condition like moral credit, but a moderating mechanism. Once the leader decides in favor of misconduct (submechanism a), the by-standing internal (and possibly external) stakeholders observe the misconduct and sometimes are even complicit. Stakeholders might not consider the misconduct grave enough to intervene if the leaders have already established favorable credentials (Merritt *et al.*, 2012). The reason for this appeasement is that the stakeholders assign high moral credentials to the organization and the leader because of its CSR, thus exposing the bias that a “good” organization cannot do anything “bad” (Monin & Miller, 2001). They show understanding, try to cause as little damage as possible to the organization in legal or economic terms or do not believe what has been disclosed about the misconduct. This allows the leader to reinforce and thereby institutionalize the misconduct over time (submechanism b). Again, MCS have a counterbalancing effect. Overruling them visibly leads, again, to stronger institutionalization of the misconduct.

At some point, however, the output at the level of actually performed actions creates outcomes counter to the corporate sustainability policies and reports that cannot be overseen anymore by organizational stakeholders despite the moral credentials and, therefore, the misconduct lowers the leader’s personal and the overall organizational reputation (Bouzzine & Lueg, 2022; Kong *et al.*, 2022). This may be limited to an anticipated, internal issue that most likely does not align with the organizational goals, but may also manifest as a realized, public scandal. The organization reacts by reinforcing its corporate sustainability policies and reports (submechanism c). This rebuilds organizational reputation and thereby fuels the moral credit of leaders within the organization. These leaders learn how to get away with misconduct, adapt their strategies and start a new cycle (submechanism d).

Findings on the relationship between CSR, moral licensing and organizational misconduct

In this section, we provide the initial findings on literature explicitly examining the relationship between past CSR, moral licensing and organizational misconduct. Thus far, only a few studies have empirically tested this interrelation.

Ormiston and Wong (2013) study the relationship between CSR and organizational irresponsibility. Drawing on moral licensing as the underlying theoretical framework, they examine the behavior of 49 leaders of “Fortune 500” organizations from 1996 to 2002, considering the CSR performance of their respective organizations and measuring the influence of leader morality. In their examination, they investigated in detail the personality traits and characteristics of their sampled leaders to derive conclusions on their moral identity symbolization (MIS), that is, the moral self-image, and collected CSR and irresponsibility data on the affiliated organizations. Based on statistical analyses, in

line with moral licensing, they report that past CSR might lead to subsequent corporate irresponsibility. They argue that leaders, who consider themselves morally licensed to engage in irresponsibility, can influence the CSR practices of an organization and, therefore, substantially worsen CSR performance as a consequence. By further considering the leader's MIS in interaction with past CSR, they investigate if the MIS of leaders represents a moderating factor in the CSR–irresponsibility relationship based on the level of CSR present in the organization. To this end, they report that high MIS strengthens the moral licensing effect and represents a significant moderating factor in the relationship between past CSR and irresponsibility. They conjecture that this moderating effect of high MIS possibly stems from the fact that these leaders focus on being perceived as moral but do not necessarily internalize moral values, making them prone to use symbolic moral actions as means of moral licensing, eventually fostering subsequent irresponsibility. On the other hand, they do not find any significant findings for a potential moderating effect of low MIS on the CSR–irresponsibility relationship and argue that these leaders put little effort into symbolic moral actions in general as morality perception is not important to them. Therefore, these leaders are less likely to engage in symbolic moral actions that could potentially serve as the basis for moral licensing and later irresponsibility.

List and Momeni (2021) provide further evidence on the relationship between CSR and misconduct, focusing on the role of employees. Based on a natural field experiment with 1,500 employees, they investigate how CSR influences prospective employee misconduct in form of cheating. Thereby, they were interested in the propensity to cheat as well as the intensity of cheating and how both were affected by employees acting responsibly beforehand (CSR treatment). To this end, cheating refers to misreporting work results or taking a prepayment without fulfilling the related task. They undertook CSR treatment by enabling employees to donate cash to nonprofit charity organizations and framed this donation differently. For some employees, they framed the donation as a charitable act in the name of the organization, and for others, as a charitable act in the name of the employee. By comparing the findings for the CSR treated employees with a nontreated control group, they report that employees who acted responsibly beforehand by donating cash are more likely to cheat and cheat more intensely, generally confirming the moral licensing effect. This moral licensing effect is particularly strong when the donation is framed in the name of the employees instead of the organization as this reinforces the accumulation of moral credit by the individual employee.

The initial empirical evidence on the relationship between past CSR, moral licensing and misconduct thus generally confirms the underlying conceptual framework of moral licensing and that past good deeds might lead individuals to act irresponsibly.

Discussion

Contribution to research

This conceptual review first outlined the underlying mechanism behind the relationship between past CSR and organizational misconduct by the means of moral licensing. We then reviewed the empirical evidence on this matter. With regard to *RQ1*, the conceptualization of the underlying mechanism revealed that past CSR might function as a moral license to act less responsibly in the future. Individuals who behaved responsibly in the past might attribute to themselves a moral credit that is potentially endorsed by prior moral credentials, which they believe can be exchanged for acting irresponsibly in the future, hence, representing a cognitive bias. Should the biased individual assume a leading position in the organization, past CSR might trigger them to act irresponsibly not

only personally but also organizationally, eventually leading to organizational misconduct. This conceptual construct has been compellingly confirmed in first empirical studies examining how past CSR performance affects the future moral behavior of leaders and employees (List & Momeni, 2021; Ormiston & Wong, 2013). As illustrated in the Introduction section, there are anecdotal practical cases that demonstrate this behavior. Hence, our proposed conceptual framework might help to better understand the antecedents of organizational misconduct and enriches the ample research on the relationship between CSR and irresponsibility (Kang *et al.*, 2016; Kotchen & Moon, 2012; Price & Sun, 2017; Riera & Iborra, 2017; Strike *et al.*, 2006). Accordingly, future research should consider the moral licensing effect when examining the antecedents of organizational misconduct (Feldmann *et al.*, 2022).

With regard to moderating the moral licensing effects, we discussed the role of MCS. We illustrated that MCS might mitigate misconduct by providing precise guidelines to leaders and reminding them of their moral duties. Likewise, we posited that MCS eventually lead to further misconduct if leaders can overrule them as this enables an institutionalization of irresponsibility in the organization. Future research should investigate the role of further moderators of the moral licensing effect. In this regard, contextual factors such as organizational complexity (Läger, Bouzzine, & Lueg, 2021), the institutional environment of the organization (Roxas & Coetzer, 2012) and organizational visibility (Schreck & Raitchel, 2018) might play a crucial role in the determination of moral credentials as these organizations and their CSR initiatives generally receive greater public interest by the social environment which might lead to a reinforcement of the moral licensing effect at organizational leaders (Lasarov & Hoffmann, 2020).

Also, firm size and complexity are generally associated with greater CSR initiatives (Drempetic, Klein, & Zwergel, 2020; Läger *et al.*, 2021; Udayasankar, 2008), whereas more complex structures enhance the potential for misconduct because of the higher number of subunits and employees, decentralization, higher information asymmetries and declining effectiveness of monitoring systems (Campbell & Shang, 2021). Therefore, controlling for firm size has been an important feature in the study of Ormiston and Wong (2013) and should be accounted for in future studies.

In terms of the institutional environment, considerations of the cultural background are crucial to the strength and the direction of the moral licensing effect. Simbrunner and Schlegelmilch (2017) found that there are substantial differences in the moral licensing effect among different regions that are driven by differing moral values. As such, the moral licensing effect is much more pronounced in North America than in Western Europe as North Americans, despite having many similarities in moral values, tend to be more religious than Western Europeans, therefore, attributing greater importance to morality in general. Because of this higher importance of morality in North America, obtaining a license for irresponsibility is much more important than in Western Europe where immorality is generally more accepted. In Southeast Asia for instance, the moral licensing effect is much less pronounced than in North America and Western Europe, or even negative and past moral behavior is associated with consistent or even stronger future moral behavior. The authors explain this by arguing that time orientation in Southeast Asia is different than in North America and Western Europe and actions are not primarily driven by current circumstances but rather by past experiences and future outcomes. This comparison illustrates that the cultural background as part of the institutional environment plays a crucial role in determining the moral licensing effect and should be considered in future research (Pew Research Center, 2014; Tomeh, 1968; Zhang, Liang, & Sun, 2013).

Also, the domain in which the moral credit/credentials were obtained might be of relevance, for example, organizations that have obtained moral credit/credentials for proenvironmental behavior might exchange these against environmental misconduct afterward (Ormiston & Wong, 2013). Therefore, future research should not only examine if CSR is generally associated with moral licensing but also the domain in which the moral credits/credentials have been accumulated.

Contributions to practitioners

This entanglement of past CSR and future misconduct comes with various implications for CSR strategy. To address our RQ2, we posit theory-grounded recommendations for practitioners that help to overcome this issue that can potentially undermine CSR strategies. It is noteworthy that CSR is generally associated with significant advantages for organizations as it contributes to obtaining a competitive advantage, good reputation and customer satisfaction, ultimately leading to enhanced performance (Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015).

First, to seize these advantages, organizations should establish MCS that hold leaders accountable for misconduct (Lueg & Radlach, 2016). Boards should be careful when leaders engage in CSR and pay particular attention to the aftermath of CSR initiatives. Leaders may potentially consider these initiatives as a moral license to engage in irresponsibility in the future, especially when they exhibit high MIS: leaders with high MIS want to establish a moral perception of themselves, making them prone to engage in symbolic moral actions. Eventually, these symbolic actions are then used as a means of moral licensing that might lead to subsequent misconduct. To prevent this behavior, boards should establish zero-tolerance policies regarding irresponsible behavior and communicate them clearly to leaders (Ormiston & Wong, 2013). These policies, however, should not include reward schemes for engaging in CSR as these tend to increase the likelihood of moral licensing and, thus, misconduct (Zhong, Ku, Lount, & Murnighan, 2010).

Second, besides establishing MCS that prevent misconduct in the first place, organizations need to promote consistency in their CSR strategies. According to Mullen and Monin (2016), organizations that are consistent in their CSR strategies are more likely to attract employees whose personal moral behavior is congruent to the organizational behavior and thus, if the organizational behavior is consequently moral, it is likely that employees will stick to moral behavior as well. On the other hand, moral licensing is promoted by acting ambiguously in organizational moral behavior and pursuing contradictory CSR goals as this would eventually lead to an attraction of employees with questionable moral behavior who might be prone to use the inconsistent CSR engagement by the organization as a means to moral licensing. Rodermans (2019) describes these two effects as the selection and the moral licensing effect. According to the selection effect, morally superior employees, in line with moral reasoning (Reynolds & Ceranic, 2007; Weaver, 2006), select those organizations that exhibit high CSR as potential employers. This implies that organizations with consistent and credible CSR strategies can attract morally superior employees that do not engage in misconduct. On the other hand, concerning the moral licensing effect, sudden adoptions of CSR, ambiguity in CSR strategies and variation in CSR intensities foster moral licensing as this behavior might lead to an attraction of employees with questionable moral behavior prone to exploit the inconsistent CSR activities as a means of moral licensing.

Concluding, this paper investigates how past CSR affects organizational misconduct, concludes that moral licensing, as the underlying mechanism, possibly tempts individuals to

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