Fraud and Market Participation: Social Relations as a Moderator of Organizational Misconduct

Christopher B. Yenkey[1]

Abstract

This paper extends organizational research on distrust to explain the effects of organizational misconduct on continued market participation after a fraud. I argue that social relations between fraud victims and perpetrators insulate against the formation and diffusion of distrust. Variation in market participation after a fraud occurs because victims who belong to the perpetrator's social group are more likely to attribute blame to the organization that committed the fraud, while victims from social out-groups are more likely to generalize blame to the perpetrator's social group and subsequently avoid other organizations and institutions governed by its members. The empirical setting is Kenya's ethnically diverse Nairobi Securities Exchange (NSE), from which the country's largest stockbrokerage was expelled in 2008 after defrauding one-quarter of its 100,000 clients. Analysis of NSE data on trades for victimized and non-victimized investors, as well as surnames that identify investors' ethnicities, shows that clients from the same ethnic group as leaders of the corrupt brokerage are more likely than clients from rival ethnic groups to continue to participate in the market after a fraud and more likely to choose another intermediary operated by members of their ethnic group. But results also show that some victims invest more after the fraud and use less-trustworthy intermediaries to do so. This suggests that integrity-based trust may be a less effective coordination device in arm's-length market transactions than in interpersonal transactions. A key implication is that misconduct does not simply reduce average participation in a market; it changes the market's composition by filtering out diverse social groups that are more likely to demand stronger governance standards.

Keywords: group diversity, political economy, organizational misconduct, trust, corruption, capital markets, Nairobi Securities Exchange

[1] University of South Carolina Darla Moore School of Business

The role of trust in facilitating market participation has drawn attention from multiple disciplines. Sociologists and economists have pointed to trust as a precondition for market exchange (Arrow, 1974; Granovetter, 1985; Beckert, 2006), while political scientists (Putnam, 1993; Fukuyama, 1995; Hardin, 2006) and development scholars (Woolcock, 1998; Zak and Knack, 2001) have studied its reflexive relationship with a broader set of institutions that collectively affect economic, social, and political development. Trust at the national level is linked to higher levels of economic development (Knack and Keefer, 1997; Zak and Knack, 2001; Fafchamps, 2006) and financial market growth (Guiso, Sapienza, and Zingales, 2004). Of direct relevance to the analysis presented here, research in finance has linked trust to higher levels of stock market participation (Guiso, Sapienza, and Zingales, 2008; Georgarakos and Pasini, 2011).

Despite the central role of trust in facilitating market participation, fraud and other forms of misconduct that violate trust are regular features of markets and organizations (Kramer, 1999; Greve, Palmer, and Pozner, 2010; Palmer, 2012). Distrust is a pervasive part of social and economic life both in developing countries with weak institutional regimes (Glaeser et al., 2004; Fosu, Bates, and Hoeffler, 2006; Nunn and Wantchekon, 2011) and in developed economies like the U.S. (for reviews, see Elangovan and Shapiro, 1998; Kramer and Lewicki, 2010). Organizational research on trust violations at the interpersonal level (Dirks, Lewicki, and Zaheer, 2009; Kramer and Lewicki, 2010) and organizational level (Greve, Palmer, and Pozner, 2010; Palmer, 2012; Aven, 2015; Palmer and Yenkey, 2015) has grown dramatically in recent years, but scholars have yet to systematically address the implications of organizational misconduct for the legitimacy of the market in which it occurs. Researchers have shown that firms that engage in malfeasance suffer lower market valuations (Davidson, Worrell, and Lee, 1994; Baucus and Baucus, 1997; Palmrose, Richardson, and Scholz, 2004), which diffuse to other organizations that stakeholders generalize as similar to the deviant firm (Jensen, 2006; Jonsson, Greve, and Fujiwara-Greve, 2009; Paruchuri and Misangyi, 2015). But little is known about how markets at the macro-institutional level become delegitimized by meso-level organizational misconduct (Greve, Palmer, and Pozner, 2010), despite growing interest in the ways that negative evaluations diffuse at more macro levels of analysis (Rivera, 2008) and through multiplex relationships (Pontikes, Negro, and Rao, 2010). Most research on the effects of misconduct on markets has been done by institutional scholars who attribute lower market participation resulting from fraud and corruption to state-level failures to constrain malfeasance (e.g., La Porta et al., 1997; Easterly, Ritzen, and Woolcock, 2006; Fafchamps, 2006). The central theme in this literature is that misconduct signifies weak regulatory institutions, which lowers generalized trust and indirectly lowers market participation (Knack and Keefer, 1997; Guiso, Sapienza, and Zingales, 2008; Georgarakos and Pasini, 2011). What prior work has not taken into account is that interpersonal and group-level relations are important in the formation of trust (Tajfel, 1974; Brewer, 1981; Granovetter, 1985) and thus should also influence the formation of distrust and thus willingness to participate in a market after a fraud.

Many markets are governed by members of dominant social groups; for example, capital markets in South Africa, India, and China are largely governed by whites, the Brahmin caste, and the communist party, respectively. I argue that group-level social relations in such settings can inhibit the formation of

distrust after misconduct. I theorize that victims who are coethnic with their perpetrator are unlikely to attribute blame for the misconduct to their shared social group, because the benefits that accrue to group members are unaffected by the deviance of an individual member (Brewer, 1981; Portes and Jensen, 1989; Lawler, 1992; Ingram and Lifschitz, 2006). In contrast, victims who belong to social out-groups, especially rival groups, are more likely to attribute blame for the misconduct to the perpetrator's social group and subsequently to disengage from future transactions with other organizations and market institutions that represent it (Steele, 1997; Carr and Steele, 2010; Thébaud, 2015). Variations in trust arising from group-level relations between victims and a fraudulent organization can help explain variations in continued market participation when the market's governance regime also represents the fraudulent organization's social group, because stakeholders discriminate against those who share categorical similarities with the deviant (e.g., Jonsson, Greve, and Fujiwara-Greve, 2009; Vergne, 2012; Paruchuri and Misangyi, 2015; Pescosolido and Martin, 2015). My argument expands earlier research on the devaluation of independent actors perceived to be similar to a deviant (Jensen, 2006; Jonsson, Greve, and Fujiwara-Greve, 2009; Pontikes, Negro, and Rao, 2010; Vergne, 2012; Naumovska, Zajac, and Lee, 2013) by investigating not only categorical similarities between organizations and institutional regimes but also their similarities with victims of misconduct. The link between generalized trust and market participation has been demonstrated sufficiently (Knack and Keefer, 1997; Guiso, Sapienza, and Zingales, 2008; Georgarakos and Pasini, 2011), but fraud may not consistently generate distrust among all market participants. Instead, members of less powerful out-groups may experience the misconduct as a stronger threat to the market's legitimacy than do members who share similarities with members of the governing regime. I examine these group-level effects on distrust in a study of the effect of shared versus rival ethnicity between investors and a corrupt stockbrokerage on continued investment in Kenya's ethnically diverse emerging stock market, the Nairobi Securities Exchange, whose governing institutions are controlled by members of the same ethnic group as the corrupt stockbrokerage.

FRAUD IN KENYA'S NASCENT STOCK MARKET

On March 5, 2008, Kenya's state-run regulatory agency, the Capital Markets Authority (CMA), expelled Nyaga Stockbrokers Ltd. from the Nairobi Securities Exchange (NSE) due to theft of cash and shares from clients' accounts, a coordinated organization-level fraud enacted by agents in all seven of the firm's branch offices located around the country (Gikunju, 2008; Gakeri, 2012). Nyaga was the largest brokerage organization in the country at the time, serving about one-fifth of Kenya's 500,000 domestic investors, and was an especially popular choice of intermediary for retail investors with smaller portfolios. Financial press accounts of a confidential forensic audit of the fraud indicated that Nyaga agents used their electronic access to clients' accounts to engage in short selling, keeping the proceeds and in many cases committing outright theft of clients' shares or cash deposited in their accounts (Gikunju, 2008; Standard Media Group, 2009). When the CMA expelled Nyaga from the market, it placed all accounts under statutory management and notified clients that they should check for missing shares and cash deposits. Clients who discovered financial

losses were instructed to file a claim with the Investor Compensation Fund (ICF), a state-run program implemented the year before to compensate fraud victims. Approximately one-quarter of Nyaga's 100,000 clients experienced losses verified by the ICF. Reimbursements were paid after more than a year and a half, and in many cases only a partial reimbursement was received (*Daily Nation*, 2009). The timing of the fraud was notable because the CMA's regulatory intervention occurred just three weeks before the much-anticipated initial public offering (IPO) of the state-owned telecom firm Safaricom. Safaricom was one of the most profitable firms in sub-Saharan Africa at the time and had a 90-percent market share in Kenya, resulting in high demand for its shares among domestic investors. All Nyaga clients had to transfer their accounts to other intermediaries to invest in the telecom IPO or to trade shares.

The Nyaga fraud provides an excellent setting for studying the effects of social relations on the formation and diffusion of distrust due to the institutionalized system of ethnic groups that make up Kenyan society. Membership in ethnic groups plays a key role in the formation of social identity in East Africa (Brewer, 1968), consistent with Brewer's (1981: 346) definition of ethnocentrism as ''a syndrome involving mutually reinforcing interactions among attitudinal, ideological, and behavioral mechanisms that promote in-group integration and out-group hostility.'' Much economic, political, and social activity in Kenya is organized through ethnic groups because they are believed to facilitate trustworthy exchange (Ensminger, 1996; van Ufford and Zaal, 2004; Yenkey, 2015).

The corrupt Nyaga brokerage was owned and operated by members of Kenya's Kikuyu ethnic group, which comprises about 22 percent of Kenya's general population but controls most of the country's political and economic institutions. Kikuyu have controlled the executive branch of government since 2002, and control of the state is a primary means for distributing resources within an ethnic group (Diamond, 1987; Barkan, 2004; Wrong, 2009). At the time of the fraud, Kikuyu occupied most senior management positions and almost two-thirds of the boards of directors at both the NSE and the CMA. Almost half of the 35 intermediaries serving the market at the time were Kikuyu owned and operated, and about 40 percent of all NSE investors were Kikuyu, double their share in the general population. We can refer to Kikuyu as the elite governing group in the Kenyan market (Mills, 1956; Bottomore, 1993), making Kikuyu investors coethnic with the corrupt brokerage and the market's governance regime.

A brief account of inter-ethnic tensions during a presidential election just prior to the Nyaga fraud demonstrates the relations between Kikuyu and two rival ethnic groups (for a more detailed review, see Masakhalia, 2014). The 2007 presidential campaign pitted the Kikuyu incumbent against a coalition of opposition candidates from the Luo and Kalenjin ethnic groups, the third- and fourth-largest ethnic groups in Kenya, which have challenged the Kikuyu for political and economic power since the country's independence in 1963. Both sides were broadly observed to engage in vote rigging, and both were accused of inflaming inter-ethnic hostilities to mobilize voters in the general election (Dercon and Gutiérrez-Romero, 2012). When the Kikuyu incumbent was declared the winner in January 2008 amid widespread concern from international observers, violent conflict between the two sides occurred around the country, resulting in more than 1,500 casualties and 400,000 internally

displaced persons (Thielke, 2007). Prior research (Yenkey, 2015) has provided additional background on this unique context.

Beyond institutionalized ethnic divisions, NSE intermediaries also sort into two professional categories: stockbrokerages, the traditional intermediaries dating back to the exchange's founding in the 1950s, and commercial banks, more recently granted licenses to operate as stock market intermediaries. The NSE was founded in 1954 as an association of stockbrokers (Ngugi, 2003), who maintained ownership until demutualization in 2014. Stockbrokerages were increasingly portrayed as an elite interest group that for many years fought against demutualization of the market to retain their privileged position (Gakeri, 2012). There was also growing public suspicion that some brokerages exploited their electronic access to clients' accounts to trade on their clients' shares without approval (Gikunju, 2007). Concerns of misconduct were confirmed in March 2007 when Francis Thuo and Partners Limited, a small brokerage serving approximately 4,500 clients, was expelled from the market after defrauding an undisclosed number of clients. The scope of this misconduct was limited, but it resulted in a large public outcry against abuses of power by rogue brokerages (Sanga, 2008; Mukumu, 2009), which provided the impetus for the state's creation of the ICF.

Commercial banks, however, occupied a distinct professional category at the time. They were the focal point of a set of state policies designed to stimulate popular inclusion in the formal financial sector and were seen as the easiest access point into Kenya's formal financial sector (FSD Kenya, 2009). In 1999, the CMA allowed commercial banks to act as intermediaries in the NSE (CMA Annual Report, 1999). By the time the corrupt Nyaga brokerage was placed under statutory management in March 2008, eight commercial banks had been licensed as intermediaries (CMA Annual Report, 2008).

Nyaga's clients faced two main decisions after being informed that their brokerage had committed fraud and was expelled from the NSE: whether to continue participating in the market and, if so, which intermediary to choose as their new agent. All Nyaga's clients, with or without a financial loss, were required to transfer their accounts to another intermediary in order to transact in the market, whether they wanted to make new investments—such as the much-anticipated telecom IPO—or to trade in their existing shares. Figure 1 presents the four categorical types and numbers of intermediaries available to investors after the scandal, with same versus different defined in relation to the corrupt Kikuyu stockbrokerage. Those intermediaries not controlled by Kikuyu are characterized by a heterogeneous mix of ethnicities, so I have used two social categories, Kikuyu and non-Kikuyu. Stockbrokerages and commercial banks are easily identifiable professional categories.

SOCIAL RELATIONS AS A MODERATOR OF DISTRUST

Trust as an organizing principle has drawn attention from scholars in many disciplines. A number of excellent sources provide comprehensive reviews of this large literature (e.g., Kramer, 1999; Dirks and Ferrin, 2001; Schoorman, Mayer, and Davis, 2007). The consensus definition of trust is a psychological state in which the trustor accepts vulnerability in a transaction as a result of expectations of positive behavior from the trustee (Rousseau et al., 1998; McEvily, Perrone, and Zaheer, 2003; Kramer and Lewicki, 2010). Scholars broadly

Figure 1. Categories of market intermediaries available after the fraud.*

<div align="center">PROFESSIONAL CATEGORY</div>

		Same	Different
SOCIAL CATEGORY	Same	Kikuyu stockbrokerage (12)	Kikuyu commercial bank (3)
	Different	Non-Kikuyu stockbrokerage (14)	Non-Kikuyu commercial bank (6)

* Same vs. different is relative to the corrupt, Kikuyu-operated Nyaga stockbrokerage.

recognize that trust has two key components: competence and integrity (Rousseau et al., 1998; McEvily, Perrone, and Zaheer, 2003; Kramer and Lewicki, 2010). The former is a measure of the trustee's ability to deliver a positive result, and the latter is the willingness to do so without opportunism. Distrust is characterized by an active fear, skepticism, or avoidance of a potential or actual partner due to a deficit in one or both of these components (Lewicki, McAllister, and Bies, 1998).

Fraud triggers integrity-based distrust in a transaction relationship, as fraud is not about the competence of the partner to complete the agreed-upon action but rather his or her willingness to do so without opportunism. In experimental trust games (Berg, Dickhaut, and McCabe, 1995; Schweitzer, Hershey, and Bradlow, 2006; for a review, see Camerer, 2003) and repeat market transactions (Uzzi, 1996; Uzzi and Lancaster, 2003), partners update their beliefs about each other's' trustworthiness following each transaction. Positive transactions increase evaluations of trustworthiness, and untrustworthy behavior has a disproportionately negative effect (Baumeister et al., 2001; Pillutla, Malhotra, and Murnighan, 2003). A common and unsurprising finding in the micro-level trust literature is that people avoid partners who violate their trust (Kramer and Lewicki, 2010: 250).

But to better understand market-level behavioral responses to trust violations, we want to know how victims reassess the market's institutional legitimacy and how they restructure their transaction relationships (McEvily, Perrone, and Zaheer, 2003: 93) rather than their feelings or actions toward the perpetrator who committed the violation. For a fraud to have a negative impact outside the violated transaction relationship, there needs to be some pathway through which the attribution of blame diffuses to institutions and organizations that did not perpetrate it. Following research in psychology and social psychology on stereotypes and discrimination (Goffman, 1963; Link and Phelan, 2001; Major and O'Brien, 2005; Pescosolido and Martin, 2015), organization theorists have studied discrimination against independent organizations that occurs

when stakeholders generalize their expectations based on attributes those organizations share with the deviant (Devers et al., 2009). Theory development in this growing literature focuses on the pathways through which negative stereotypes diffuse across organizations. Jonsson, Greve, and Fujiwara-Greve (2009) found that shared organizational form, size, and industry categorization serve as generalizable pathways for transmitting lower valuations from a deviant mutual fund to independent funds. Pontikes, Negro, and Rao (2010) found that a devalued social identity, suspicion of being a communist in 1950s Hollywood, diffused through heterophilous workplace ties and restricted future job opportunities. Naumovska, Zajac, and Lee (2013) found that negative valuations diffuse through shared national identities, as Chinese firms publicly traded in the U.S. suffer discriminatory evaluations after other Chinese firms are suspected of financial and accounting irregularities. More-recent work has focused on attributes of the stakeholders who form these generalizations rather than just attributes shared between firms. For example, Paruchuri and Misangyi (2015) found that the depth of investors' knowledge of a suspect firm and industry moderates their negative valuations of other firms.

I extend these perspectives by studying social relations between a fraudulent organization and its victims as a moderator of negative reactions following misconduct. Membership in social groups is a key decision criteria for assessing the trustworthiness of transaction partners (Brewer, 1981; Tajfel and Turner, 1986; Landa, 1995; Ensminger, 1996), and the theoretical question addressed here is whether individuals react differently when they are victimized by a perpetrator that belongs to their social group versus one from an outside group. At the interpersonal level, deviance within a social group is a particularly jarring event because group membership fosters higher expectations for trustworthy behavior (Coleman, 1990; Pettigrew and Tropp, 2006; Foddy, Platow, and Yamagishi, 2009; Hargreaves Heap and Zizzo, 2009). Violations produce strong enforcement actions against the deviant member (Portes and Jensen, 1989; Portes and Sensenbrenner, 1993; Mendoza, Lane, and Amodio, 2014), especially when victims also belong to the group (Bernhard, Fehr, and Fischbacher, 2006). But rather than outrage and punishment directed at the deviant, I am interested in victims' continued participation in a market governed by other members of the perpetrator's social group.

Research from several disciplines suggests that victims who belong to the perpetrator's social group are unlikely to generalize their distrust of the deviant to their larger social group, while victims from out-groups will devalue and disengage from other members of the perpetrator's social group. Lawler (1992) demonstrated that group membership is a broadly valuable resource expected to persist despite the deviance of a corrupt member because group membership provides a generalized sense of control. Research on group-based social capital similarly demonstrates that group membership provides tangible benefits to group members that facilitate higher economic achievement (Geertz, 1962; Portes and Jensen, 1989; Ingram and Lifschitz, 2006; Kalnins and Chung, 2006). In the event that one member of the group engages in misconduct, the larger set of benefits of group membership remains even as group members disassociate themselves from the individual deviant. Violations within social groups become the focus of strong enforcement actions intended to re-strengthen the group (Portes and Jensen, 1989; Coleman, 1990), but

generalized expectations of trustworthiness in the group (Tajfel, 1974; Brewer, 1981; Granovetter, 1985) should still apply following a single misconduct event.

In contrast, transaction partners who belong to different social groups have lower expectations of trustworthy behavior (Pettigrew and Tropp, 2006), especially when their history is characterized by discriminatory treatment (Cohen and Steele, 2002). Despite this, transaction relationships frequently cross group boundaries (Fearon and Laitin, 1996), making it necessary to understand how out-group victims react when lower expectations of trustworthiness are met by actual trust violations. The social psychology literature on the role of social identity and group membership in determining trust and reactions to trust violations is extensive (Yamagishi and Cook, 1993; Stets and Burke, 2000; Pettigrew and Tropp, 2006, 2011), and the theoretical argument made here applies the principle that members of stigmatized out-groups are more likely to disengage from practices or relationships that confirm their disadvantaged position. This disengagement mechanism arises because actors whose negative cultural stereotypes are stimulated are more likely to demonstrate the socially expected but devalued attribute (Major and O'Brien, 2005: 397). A major focus of this work is on reduced actual task performance predicted by the activation of a negative cultural stereotype (Steele, 1997; see also Steele et al., 2002), but researchers have demonstrated disengagement with financial activities as well. Thébaud (2015) showed that women are less likely to engage in male-dominated entrepreneurship activities and that the ventures they do start tend to be in business areas less associated with male-dominated stereotypes. Similarly, Carr and Steele (2010) found that women enact culturally inherited stereotypes of loss and risk aversion when their gendered identity is activated during financial decision making. Confirming someone's marginalized position often results in that person avoiding situations in which he or she expects it to be salient (Stone, 2002).

Disengagement predicts that fraud victims will avoid situations in which they expect similar risks. We can reasonably expect that all fraud victims will blame and distrust the corrupt organization, but when regulators expel the corrupt organization from the market, the behavioral reaction of interest is victims' devaluation of the market at the institutional level. Because negative stereotypes can diffuse at higher levels of analysis than where they are generated (Rivera, 2008; Naumovska, Zajac, and Lee, 2013), victims' avoidance of others who share the perpetrator's distrusted attribute should be observable in their assessments of the legitimacy of the market itself. For clients of the corrupt brokerage who were ethnic rivals, I expect that fraud victimization will stimulate recognition that they are in a disadvantaged position relative to the dominant governing group and that they thus are more likely to disengage from future transactions in which they believe they will be less likely to receive fair treatment:

> Hypothesis 1 (H1): Clients of the corrupt brokerage who belong to rival ethnic groups will be less likely than coethnic clients to invest in the Kikuyu-governed market.

The same avoidance mechanism that predicts whether victims will continue to participate in a market should also predict which organizations victims will choose to represent them next in the market. Victims should generalize their assessments of low integrity to independent intermediaries remaining in the

market that share categorical similarities with the expelled brokerage (Jensen, 2006; Devers et al., 2009; Jonsson, Greve, and Fujiwara-Greve, 2009; Naumovska, Zajac, and Lee, 2013; Paruchuri and Misangyi, 2015). The two primary attributes that intermediaries in the Kenyan market share are their ethnic and professional affiliation, and in the immediate aftermath of a fraud the choice made by victims in each group signifies their relative trust in each type of available intermediary. Earlier work (Brewer and Silver, 1978; Brewer, 1981) suggested that in-group members make decisions about the trustworthiness of in-group members based on more-nuanced attributes than shared group membership, but out-group members are more likely to form stereotypes based on group membership. I expect victims from rival ethnic groups will avoid choosing another Kikuyu intermediary because its shared ethnic identity with the corrupt brokerage provides a pathway for transmitting the stereotype of low integrity. Victims who are coethnic with the corrupt brokerage, however, are less likely to devalue their ethnic group and thus less likely to avoid other intermediaries that share that identity:

> **Hypothesis 2 (H2):** Victims who are ethnic rivals of the corrupt brokerage will be less likely than coethnics to choose another Kikuyu intermediary to represent them in the market.

The arguments so far have focused on integrity-based trust, but integrity is not the sole component of trust. Fraud victims update their expectations of fair treatment from the market's governance regime and other intermediaries that remain in the market because these institutional and organizational actors share a salient social identity, ethnic group membership, with the organization that committed the fraud. Integrity-based reassessments of expected fair treatment at both of these levels of analysis are a clear priority for fraud victims as they consider whether to continue in a market, but a more-complete theoretical account of fraud victims' reactions should also allow for competence-based reassessments of trustworthiness after the fraud (Rousseau et al., 1998; McEvily, Perrone, and Zaheer, 2003). Following the definition of distrust used above, it is theoretically possible that victims can be fearful or skeptical of the integrity of potential transaction partners and the market in which they transact but nevertheless continue to transact. This outcome, which I term investment without integrity, suggests that victims assess the competence-based trustworthiness of ethnic rivals separately from their perceived integrity and that the former has the potential to outweigh the latter.

The final step in my theory development explores the possible conflict between competence and integrity by considering inconsistency in victims' reactions at the organization and market levels. If higher levels of market participation are enacted via lower-integrity intermediaries, I would interpret that as evidence of investment without integrity and hence competence-based assessments outweighing integrity-based concerns. Figure 2 presents a typology of theoretically plausible combinations of reactions at the organizational and market levels that make use of each ethnic group's relative preferences for each type of intermediary situated against the value of post-fraud investments made through that type of intermediary. Results from empirical tests of H2 can be interpreted as each group's integrity-based preferences for each type of intermediary, and matching those preferences to the level of post-fraud investing

Figure 2. Typology of level of market participation associated with perceived integrity of the intermediary.

PERCEIVED INTEGRITY OF INTERMEDIARY

		Lower	Higher
LEVEL OF MARKET PARTICIPATION	Higher	Competence outweighs integrity: investment without integrity	Consistency at the meso and macro levels: organizational integrity is key deciding factor
	Lower	Uniform distrust, withdrawal	Organization-level integrity fails to legitimate the market

enacted through them provides a diagnostic framework for considering whether victims in some groups have conflicting integrity- and competence-based evaluations.[1] I am not arguing that the perceived trustworthiness of an intermediary causes future market participation. It is at least as likely that a victim decides how to invest next and then chooses an intermediary to enact that decision. Instead, my intention is to provide a more fine-grained theoretical account of how each social group reacts to the fraud by accounting for reactions rooted in both integrity and competence.

The top left cell in figure 2 captures perhaps the most theoretically compelling outcome, higher levels of market participation despite lower expectations of fair treatment by the newly chosen intermediary. Sociologists and political scientists describe this outcome as cooperation without trust (Cook, Hardin, and Levi, 2007; Hardin, 2009), and in this context I refer to it as investment without integrity. This outcome would suggest that some group members believe that lower-integrity intermediaries have higher expected ability in the market and value the latter over the former. In the empirical context of Kenya, and assuming H2 is supported, this would manifest as victims from rival ethnic groups making larger investments through another Kikuyu intermediary. In this scenario, vulnerability to malfeasance is an understood but accepted risk, perhaps due to the investor's continued preference to be represented by an intermediary that belongs to the elite social group that governs the market. At the interpersonal level, integrity-based offenses are the most difficult to recover from (Kim et al., 2013), but this outcome would suggest that integrity-based trust is a less effective coordination device at the level of arm's-length market transactions than at the interpersonal level.

A second theoretically important outcome is captured in the lower right cell, with lower market participation enacted via higher-integrity intermediaries. This

---

[1] This theoretical discussion assumes that some victims may choose to continue to transact with intermediaries whom they judge to have low integrity. A possible alternative is that some victims do not form integrity-based distrust as a result of the fraud, which could happen for several reasons. Furthermore, observing larger investments after the fraud requires that some victims remain willing to deepen their market participation. Each of these possibilities is accounted for in the empirical analysis.

outcome would suggest that restored integrity at the organizational level is insufficient to overcome distrust at the institutional level of the market caused by the fraud. In this scenario, fraud victims would employ trusted intermediaries to disengage from the market, either relatively, by investing less, or absolutely, by selling off shares. This outcome would suggest that integrity at the organization level is an imperfect repair of victims' distrust of the market's willingness or ability to treat them fairly (Sitkin and Roth, 1993; La Porta et al., 1997; Gillespie and Dietz, 2009; Guillén and Capron, 2016). An example of this in Kenya, if H2 is supported, would be victims from rival ethnic groups using non-Kikuyu intermediaries, who they believe to have higher integrity, to buy fewer shares after the fraud or to sell shares and exit the market altogether.

The remainder of figure 2 captures consistent reactions at the organization and market levels. The lower left cell, where choice of a lower-integrity intermediary is matched with lower levels of future market participation, signals uniform distrust at both levels and offers few clues for disentangling whether victims' reassessments are rooted in concerns at the organizational or market-institutional level. The top right cell would capture instances in which higher levels of future market participation are enacted via a higher-integrity intermediary. This consistency in decisions at the organizational and market-institutional levels suggests that integrity-based concerns are limited to the corrupt organization that committed the fraud, such that establishing a relationship with a higher-integrity intermediary reestablishes willingness to participate in the market. This consistency would also suggest a relatively straightforward fix for the trust damage inflicted by the fraud that is substantively consistent with research on trust repair at the interpersonal and intraorganizational levels (Dirks, Lewicki, and Zaheer, 2009; Kramer and Lewicki, 2010). This outcome could occur for victims in any group who do not generalize their distrust of the corrupt organization to the market itself.

Without a clear theoretical reason to predict each outcome, I simply predict consistency in decisions at the organization and market levels and let the empirical analysis identify which alternatives from figure 2 apply to each ethnic group:

> Hypothesis 3 (H3): Victims' levels of market participation after the fraud will be positively related to the choice of their group's most trusted type of intermediary.

METHODS

Individual-level data for estimating reactions to the Nyaga stockbrokerage fraud came from the NSE's electronic registration and clearing and settlement databases maintained by Kenya's Central Depository and Settlement Corporation Ltd. (CDSC), merged with archival records of fraud victimization from the Investor Compensation Fund (ICF). Because all market activity is routed through the CDSC's automated system, this platform provides a complete individual-level record of all transactions before and after the fraud and the intermediary used. Archival records from the ICF list account numbers for all Nyaga clients who suffered a verified financial loss in the fraud. I compared the name, national ID number, passport number, phone number, and mailing address registered to each account to identify investors who opened new

accounts with intermediaries after the fraud rather than transferring existing accounts.[2]

At the time of the scandal, there were just over 100,000 accounts registered to the Nyaga brokerage, but many of them remained dormant after they were opened. My analysis used data on the 77,928 Nyaga clients who participated in at least one IPO prior to the scandal, making their pre-fraud investing directly comparable with investment in the popular telecom IPO after the fraud in which so many Kenyan investors participated. The same data are available for 327,647 Kenyan investors in the market who were clients of other intermediaries.

Modeling Strategy and Outcome Variables

H1 predicts future participation in the market as a function of social relations with the corrupt brokerage. I tested H1 in two ways. First, a linear probability model estimates whether an account became inactive for three years following the fraud, defined as the account neither transferring to another brokerage nor trading any shares. I interpreted this inactivity as avoidance of the market because the investor effectively surrendered his or her assets when the regulator froze all Nyaga accounts. A second linear probability model estimates the likelihood of someone having invested in the popular telecom IPO three weeks after the scandal.

H2 predicts victims' choices of their next intermediary. I used an alternative-specific conditional logit to estimate the effect of clients' ethnicity on their choice of each of the four types of intermediaries presented in figure 1: a Kikuyu or non-Kikuyu stockbrokerage or a Kikuyu or non-Kikuyu commercial bank. The choice model allowed me to estimate the effect of the ethnic match between investors and each type of intermediary while also controlling for intermediary-specific attributes and holding investor attributes constant (McFadden, 1974; Cameron and Trivedi, 2010).

H3 predicts consistency between the trustworthiness of each intermediary and the value of future investments. I used a Poisson model to estimate levels of market participation post-fraud, predicted by the match between victims' ethnic group and the type of new intermediary chosen. The outcome variable is a modification of the standard measure of trade imbalance used in the behavioral finance literature (see Barber and Odean, 2008):

$$Participation_{i(t+6)} = Held_{it} + \sum Bought_{i(t \to t+6)} - \sum Sold_{i(t \to t+6)} / Held_{it} \quad (1)$$

where investor i's market participation at six months post-regulatory intervention ($t+6$) is measured as the number of shares held by i at the time of regulatory intervention t plus shares bought and minus shares sold in that six-month period normalized by the number of shares held at t. This measure takes a value of 0 if an investor liquidated all shares and exited the market after the fraud, a value of 1 if the investor's net level of market participation was unchanged, even if he or she sold shares held at the time of the scandal and bought shares in the post-scandal telecom IPO, and increasingly positive values

---

[2] See the online methodological appendix provided for Yenkey (2015) for additional details about the CDSC dataset and this data-cleaning procedure.

if the investor bought more shares after the fraud relative to what he or she held at the time of the fraud.

Explanatory Variables

Fraud victimization. My theoretical arguments benefit from parsimonious language around victims and perpetrators, but in practice victimization takes multiple forms. All Nyaga clients were victimized to some degree, as their assets were frozen by the regulator until they transferred their accounts to other intermediaries, they incurred transaction costs associated with that transfer, and their exposure to possible financial loss was more acute than that of clients of other intermediaries. About 25 percent of Nyaga clients experienced direct financial losses when the corrupt brokerage stole cash and/or shares from their accounts (for a full analysis of the victim selection process, see Yenkey, 2016). Models use a three-category measure of victimization: *clients of the corrupt brokerage, no financial loss* indicates that the investor was a Nyaga client but did not have a verified loss with the ICF, *clients of the corrupt brokerage, financial loss* did have an ICF-verified loss, and the reference group is clients of all other intermediaries. I cannot definitively know that all clients who experienced a financial loss filed a claim that was verified, but assuming no false claims were verified, the potential measurement bias is against finding a result for clients with financial loss.

Type of intermediary chosen. I categorized each of the 35 intermediaries available during the weeks between regulatory intervention and the telecom IPO according to their social and professional traits as shown in figure 1. The professional category of each is knowable from publicly available sources. To measure organizational ethnic identities, I surveyed three market insiders—two fund managers and a past member of the CMA board of directors—with unique ethnic backgrounds, asking each to identify the ethnicity of the intermediary's management team and whether the general public would have any reason to be mistaken about it. Respondents unanimously identified those operated by Kikuyu and reported that intermediaries' ethnic affiliations were common knowledge in Kenya.

Investors' ethnicity. I coded all investors' ethnicities according to the family names registered to their accounts in the NSE registration database. Eight independent coders, all indigenous Kenyans representing Kenya's six largest ethnic groups, coded the 16,230 most-common family names in the NSE registration database, capturing 95 percent of all accounts. Coders chose from the list of Kenya's 12 primary ethnic groups used in the Kenyan census, as well as two non-indigenous groups common in Kenya: South Asian and Anglo. Each coder identified each name according to the group he or she felt at least 75-percent confident the name represents, and names could receive multiple ethnic codes. Coding was done in two waves. First, two teams of four coders were each given half of the list of 16,230 family names so that all four coders on each team independently reviewed each list. Fifty-two percent of all names were coded unanimously by the four coders in the first team. All names that

did not receive unanimous coding were passed to the second team of four coders for additional review. Ethnic identities are normalized to one:

$$Ethnicity_{ie} = p_e / \sum p_e \qquad (2)$$

where investor i can be coded as a member of 14 possible ethnic groups e, and p represents the proportion of all coders that assigned i's family name to each group. Next, the 14 ethnic codes assigned to each name were collapsed into four continuous measures indicating the name's proportional representation of the ethnic categories of theoretical interest: the market's dominant *Kikuyu* group, one of the two *rival* groups (Luo and Kalenjin) that challenge Kikuyu for economic and political power, one of the eight *non-rival* groups, and an ''other'' group consisting of South Asian, Anglo, or indigenous names that signaled no identifiable ethnicity. I excluded foreign investors from the analysis. The high kappa statistic (.92) for interrater reliability across the four ethnic categories demonstrates that ethnicity in Kenya is clearly identifiable with family name. Because 95 percent of all investors score higher than .5 in only one of these four categories, I used that value as a cutoff point to assign each investor to each group as a discrete category and used the discrete categories as subsamples for each set of models. Of the approximately 3 percent of investors (N = 10,729) whose names exceed this threshold in two categories, only 69 individuals do so for the Kikuyu and rival groups, with the rest overlapping between the non-rival or other categories. I assigned these rare overlapping cases to the ''other'' category.

Control Variables

The categorical measure *client of the previous corrupt brokerage* controls for the investor having been a client of the smaller corrupt brokerage expelled from the market the previous year. *Coethnic clients of the corrupt brokerage* is measured as the logged sum of Nyaga clients in each ethnic group located in an investor's home district multiplied by the investor's proportional membership in each group:

$$Coethnic\ Nyaga\ clients_{id} = \ln\left[\left(\sum p_{ie} * Nyaga\ clients_{de}\right)\right] \qquad (3)$$

where there are d = 68 districts, e = 14 ethnic categories, and each investor i represents some proportion p of each ethnic category. Investor location is measured by the town of residence in the mailing address provided in the CDSC database, which I matched to the list of municipalities (i.e., cities, towns, and villages) in each district used by the Kenyan National Bureau of Statistics (KNBS) in the decennial census. I measured the logged number of *all clients of the corrupt brokerage* in each investor's district, regardless of ethnic group membership, using equation 2 but without summing within each ethnic category. These measures control for indirect exposure to the corrupt brokerage.

Value of prior investments is measured as the investor's logged value of investments in pre-fraud IPOs. Models estimating a categorical outcome use quintiles of this measure to avoid estimation bias that might arise from one segment of a continuous distribution, while models with continuous outcomes

use a continuous measure. *Profit on prior investments* is a continuous measure calculated as the logged nominal value of profits earned on all previous IPO investments using end-of-day prices the day before the regulatory shutdown of the corrupt brokerage; if shares were sold prior to that date, I used the sale price to calculate profit. *Tenure in the market* is measured as the number of months since the account's first share purchase. *Number of past transactions* measures each investor's level of past activity in the market using the logged count of past trades or IPO subscriptions. Each investor's *gender* is recorded in the CDSC registration data; the reference group is accounts registered as companies, a registration category commonly used by retail investors that is weakly correlated with value of investing.

Models testing H1 and H3 include dummies for the investor's district of residence and each of the 56 listed firms in which an investor may have owned shares. The alternative-specific conditional logit models used to test H2 hold individual attributes constant but allow for the inclusion of investor-centric attributes of each available intermediary. I measured logged *coethnic clients previously chose the intermediary* and the logged *value of past IPO investments handled by intermediary* at the district level at the time of the focal investor's choice. These measures control for proximate peers' earlier choices, the geographic availability of each intermediary in the client's area, and its local prominence measured as assets under management. Models testing H3 include several additional controls. *Collateralized shares* measures whether an account had shares earmarked in the CDSC system as loan collateral, which occurs when investors used consumer loans offered by Kenyan commercial banks to finance share purchases. *Net trades pre-fraud* measures the investor's logged value of net trades in the three months prior to the scandal, controlling for the possibility that he or she was already increasing or reducing his or her market position before the fraud. I tested alternative windows of one and six months, which did not change the results. Intermediary-fixed effects capture variation in levels of post-fraud investing attributable to clients of each intermediary rather than the type chosen.

RESULTS

Tables 1a and 1b present descriptive statistics and correlations for variables used in all analyses for clients of the corrupt brokerage (1a) and clients of all other intermediaries in the market (1b). Table 2 presents linear probability estimates of investors' accounts becoming inactive for three years following the fraud, the first of two tests of H1. To simplify the interpretation of results, figure 3 shows the predicted probabilities from each model, including 95-percent confidence intervals. Investors who were not clients of the corrupt brokerage have an almost zero probability of becoming inactive in the market regardless of their ethnicity. In contrast, all clients of the corrupt brokerage are significantly more likely to become inactive, which is consistent with earlier work and conventional wisdom that exposure to misconduct reduces average market participation. Beyond the average effect, results demonstrate variation according to social relations between victims and the perpetrator that support H1. Clients who are ethnic rivals to the corrupt brokerage and the market governance regime are the most likely to become inactive after the scandal. Rival clients on average have a 55.5-percent chance of becoming inactive in the market

Table 1a. Summary Statistics and Correlation Matrix, Nyaga Clients Only (N = 77,928)

Variable	Mean	S.D.	Min.	Max.	1	2	3	4	5	6	7	8	9	10	11
1. Coethnic	.59	.49	0	1											
2. Rival	.05	.21	0	1	−.26										
3. Non-rival	.21	.41	0	1	−.66	−.10									
4. Account becomes inactive post-fraud	.45	.50	0	1	.00	.00	.00								
5. Participates in telecom IPO post-fraud	.50	.50	0	1	.04	−.02	−.02	−.19							
6. Client of corrupt broker, no financial loss	.75	.43	0	1	−.03	.03	.02	.00	−.08						
7. Client of corrupt broker, financial loss	.25	.43	0	1	.03	−.03	−.02	.00	.08	−1.00					
8. Client of the previous corrupt brokerage	.01	.10	0	1	.02	−.01	−.01	.57	−.09	−.01	.01				
9. Coethnic clients of corrupt brokerage (district, ln)	7.56	2.96	0	10.36	.53	−.10	−.08	.01	.05	−.02	.02	.02			
10. All clients of corrupt brokerage (district, ln)	9.46	1.59	0.69	10.66	.03	−.02	−.02	.02	.02	−.01	.01	.02	.49		
11. Tenure in the market (months)	20.14	6.91	0.30	40.37	−.01	.01	.02	.05	−.11	.06	−.06	.11	.03	.05	
12. Value of prior investments (ln)	8.40	2.34	0	15.31	.01	−.01	.00	−.03	.02	−.03	.03	.00	.03	.06	.34
13. Profit on prior investments (ln)	5.85	6.53	−14.95	15.02	.00	−.01	.00	.00	−.04	−.02	.02	.03	.00	.00	.31
14. No. past transactions (ln)	1.30	.69	0.69	8.35	.00	−.01	.02	.03	.00	−.14	.14	.10	.03	.02	.52
15. Female	.27	.44	0	1	.04	−.01	.00	.01	−.01	.00	.00	.02	.08	.06	.08
16. Male	.70	.46	0	1	.00	.02	.02	−.01	.02	.00	.00	−.02	.01	−.07	−.06
17. Company	.04	.19	0	1	−.14	−.03	−.06	.01	−.03	−.01	.01	.00	−.28	.03	−.04
18. Chose a Kikuyu stockbrokerage as next intermediary	.57	.50	0	1	.03	−.02	−.02	.07	−.03	.01	−.01	.04	.03	.03	.06
19. Chose a non-Kikuyu stockbrokerage as next intermediary	.12	.32	0	1	−.08	.08	.06	−.03	.02	−.01	.01	−.01	−.03	.04	.06
20. Chose a non-Kikuyu commercial bank as next intermediary	.08	.27	0	1	−.05	.04	.04	−.02	−.20	.01	−.01	−.02	−.04	−.03	.00
21. Chose a Kikuyu commercial bank as next intermediary	.10	.29	0	1	−.01	.00	.01	.02	.02	−.08	.08	.07	−.02	−.04	.25
22. No. of coethnic clients who previously chose the intermediary (district, ln)	7.79	2.99	0	11.64	.43	−.05	−.04	.03	.02	−.01	.01	.04	.91	.49	.07
23. Value of past investments handled by intermediary (district, ln)	19.50	2.45	0	22.34	−.05	.03	.03	.04	−.03	.02	−.02	.04	.38	.84	.09
24. Level of market participation post-fraud	3.57	138.94	0	35,426	−.01	.00	.00	.00	.01	.01	−.01	.00	−.02	.01	−.02
25. Net value of trades 90 days pre-fraud (ln)	.23	1.78	−13.02	16.40	−.01	.01	.01	−.01	.06	−.05	.05	.00	.00	.02	.08
26. Collateralized shares	.03	.17	0	1	.01	.01	−.01	−.02	.09	.02	−.02	−.01	.00	−.01	.03

Variable	12	13	14	15	16	17	18	19	20	21	22	23	24	25
13. Profit on prior investments (ln)	.33													
14. No. past transactions (ln)	.30	.25												
15. Female	.03	.05	−.01											
16. Male	−.03	−.05	.02	−.94										
17. Company	.00	−.01	−.03	−.11	−.24									
18. Chose a Kikuyu stockbrokerage as next intermediary	.05	.04	.05	.01	−.02	.02								
19. Chose a non-Kikuyu stockbrokerage as next intermediary	.04	.02	.09	.01	−.01	.00	−.42							
20. Chose a non-Kikuyu commercial bank as next intermediary	−.04	.03	−.03	.02	−.02	−.02	−.34	−.11						
21. Chose a Kikuyu commercial bank as next intermediary	.08	.09	.55	−.01	.02	−.01	.02	.04	.00					
22. No. coethnic clients who previously chose the intermediary (district, ln)	.06	.02	.06	.09	.00	−.25	.34	−.05	−.13	−.01				
23. Value of past investments handled by intermediary (district, ln)	.09	.03	.06	.07	−.08	.03	.39	.04	−.08	−.02	.58			
24. Level of market participation post-fraud	−.02	.00	−.01	−.01	−.01	.04	−.01	.00	.00	−.01	−.02	.00		
25. Net value of trades 90 days pre-fraud (ln)	.04	.02	.26	−.01	.01	.01	.03	.03	−.04	.21	.02	.04	.00	
26. Collateralized shares	.05	.05	.03	−.02	.03	.00	.10	.00	−.05	.02	.04	.04	.00	.02

Table 1b. Summary Statistics and Correlation Matrix, Clients of All Other Intermediaries (N = 327,647)

Variable	Mean	S.D.	Min.	Max.	1	2	3	4	5	6	7
1. Coethnic	.39	0	0	1	1						
2. Rival	.08	.28	0	1	−.24						
3. Non-rival	.23	.42	0	1	−.44	−.17					
4. Account becomes inactive post-fraud	.00	.07	0	1	.02	.00	−.01				
5. Participates in telecom IPO post-fraud	.46	.50	0	1	.13	−.01	.03	−.05			
6. Client of the previous corrupt brokerage	.01	.11	0	1	.04	−.01	−.01	.62	.03		
7. Coethnic clients of corrupt brokerage (district, ln)	6.23	3.73	0	10.34	.58	−.02	.09	.03	.15	.05	
8. All clients of corrupt brokerage (district, ln)	9.41	2.01	0	10.66	.06	−.11	−.09	.02	−.05	.03	.36
9. Tenure in the market (months)	20.15	6.71	0	40.33	.04	−.02	.00	.04	.09	.09	.03
10. Value of prior investments (ln)	8.40	2.81	0	18.59	.01	−.02	−.01	−.01	.09	.00	.01
11. Profit on prior investments (ln)	6.42	6.42	−17	20.46	.02	−.02	.00	.01	.12	.03	.00
12. No. past transactions (ln)	1.20	.67	1	8.13	.03	−.02	.01	.02	.22	.08	.04
13. Female	.26	.44	0	1	.11	.01	.05	.01	.11	.02	.16
14. Male	.56	.50	0	1	.09	.06	.09	.01	.08	.01	.15
15. Company	.18	.38	0	1	−.24	−.09	−.17	−.02	−.23	−.04	−.38
16. Level of market participation post-fraud	4.19	141.62	0	63,768	.00	.00	.00	.00	.02	.00	.00
17. Net value of trades 90 days pre-fraud (ln)	.21	1.70	−14.48	18.03	.00	.00	.00	.00	.10	.01	.01
18. Collateralized shares	.02	.15	0	1	.03	.00	.00	−.01	.16	.01	.02

Variable	8	9	10	11	12	13	14	15	16	17
9. Tenure in the market (months)	.02									
10. Value of prior investments (ln)	.03	.31								
11. Profit on prior investments (ln)	−.02	.33	.27							
12. No. past transactions (ln)	.04	.46	.23	.21						
13. Female	.00	.07	.03	.04	.01					
14. Male	−.16	−.01	.00	−.02	.05	−.67				
15. Company	.21	−.07	−.03	−.02	−.08	−.27	−.52			
16. Level of market participation post-fraud	.00	−.01	.00	.00	−.01	.00	.00	.00		
17. Net value of trades 90 days pre-fraud (ln)	.01	.03	−.01	.01	.23	.00	.02	−.02	.00	
18. Collateralized shares	−.01	.03	.02	.03	.08	.00	.03	−.04	.01	.04

compared with 41 percent for Kikuyu clients. Non-rivals' reactions fall between the Kikuyu and their rivals, with a 47-percent chance of total market avoidance after the fraud. Higher probabilities of market avoidance by rivals are statistically significant relative to coethnics regardless of their financial loss. Nyaga clients in all ethnic groups with financial losses are on average less likely to become inactive than members of their group who did not have financial losses, but this could result from their need to keep an active account to receive expected ICF compensation.

Table 3 presents linear probability estimates of the likelihood of investing in the telecom IPO after the fraud, using the same framework used to estimate account inactivity in table 2. For ease of interpretation, figure 4 shows predicted probabilities for each ethnic group, including 95-percent confidence intervals (panel A), and the percentage change between clients of the corrupt brokerage and peers in their ethnic group who were not clients of other intermediaries (panel B). Together, they allow a comparison of the effects of victimization on IPO participation within and across the groups. Again, results support H1.

Table 2. Linear Probability Estimates of Investor's Account Becoming Inactive Post-fraud*

Variable	Coethnics Model 1	Rivals Model 2	Non-rivals Model 3
Client of the corrupt brokerage, no financial loss	.430•••	.572•••	.494•••
	(.002)	(.003)	(.002)
Client of the corrupt brokerage, financial loss	.344•••	.454•••	.374•••
	(.002)	(.007)	(.004)
Controls			
Client of the previous corrupt brokerage	.301•••	.501•••	.348•••
	(.005)	(.012)	(.007)
Coethnic clients of corrupt brokerage (district, ln)	.005	.001	−.004•••
	(.004)	(.002)	(.001)
All clients of corrupt brokerage (district, ln)	−.002	.001	.005•••
	(.006)	(.003)	(.001)
Tenure in the market (months)	−.001•••	−.000	−.001•••
	(.000)	(.000)	(.000)
Value of prior investments: 2nd quintile	−.012•••	−.003	−.008••
	(.002)	(.004)	(.003)
Value of prior investments: 3rd quintile	−.027•••	−.012••	−.021•••
	(.002)	(.004)	(.003)
Value of prior investments: 4th quintile	−.033•••	−.011•	−.025•••
	(.003)	(.004)	(.003)
Value of prior investments: 5th quintile	−.021•••	−.010•	−.018•••
	(.003)	(.005)	(.003)
Profit on prior investments (ln)	−.001•••	−.000	−.001•••
	(.000)	(.000)	(.000)
No. past transactions (ln)	−.006••	−.001	−.001
	(.002)	(.004)	(.003)
Female	−.000	.000	.007•
	(.003)	(.005)	(.003)
Male	.014•••	.007	.017•••
	(.003)	(.004)	(.003)
Constant	.087	.014	.044••
	(.044)	(.022)	(.014)
Degrees of freedom	130	127	133
No. of observations	173,537	30,977	92,606
R-squared	.357	.531	.434

• $p < .05$; •• $p < .01$; ••• $p < .001$.
* Standard errors are in parentheses. All models include fixed effect dummies for investor's district of residence and each stock held.

Panel A shows that net of all observable attributes, rival clients are on average about 25 percent less likely to invest in the post-fraud IPO than coethnics [(39.1–52.1)/52.1 = −.25]. Lower probabilities of IPO participation by rivals are statistically significant relative to coethnics regardless of their financial loss. Panel B compares Nyaga clients with their ethnic peers who were clients of other intermediaries and thus not directly exposed to the fraud. The average coethnic client is about 6 percent less likely to invest in the telecom IPO than other coethnic investors [(52.1–55.3)/55.3 = −5.8], while rival clients are almost 12 percent less likely to invest than other rival investors [(39.1–44.3)/44.3 = −11.7]. As was the case with results on account inactivity in table 2, non-rivals' reactions fall between those of coethnic and rival clients.

Figure 3. Predicted probability of investor's account becoming inactive.
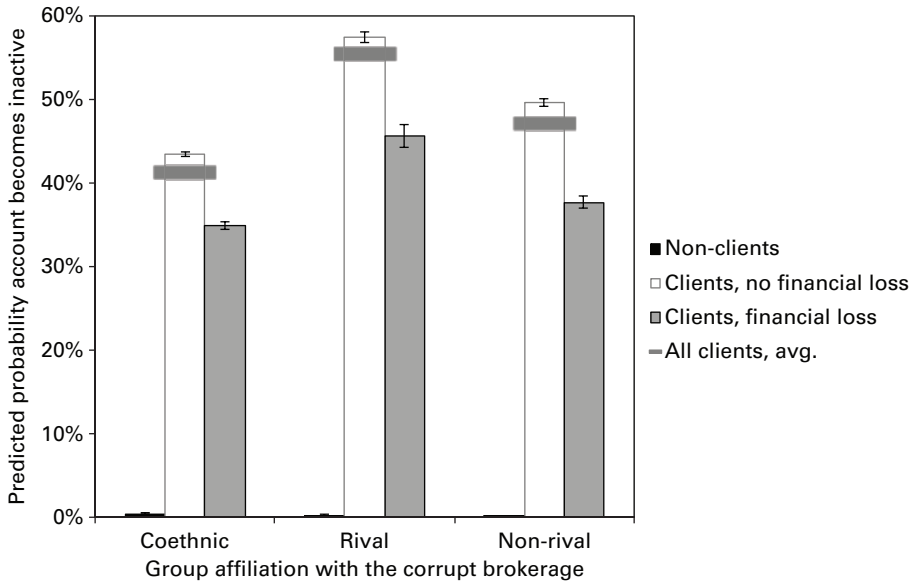
Source: Models 1–3, control variables estimated at mean values.

Interestingly, having a verified financial loss is positively associated with invest-
ing in the post-fraud telecom IPO for coethnic and non-rival clients, and rivals
with a verified financial loss are not significantly less likely to invest in this IPO
than rivals who were not clients of the corrupt brokerage (table 3). I address
this curious result below.

Table 4 presents alternative-specific conditional logit estimates of the type
of intermediary next chosen by the 43,391 Nyaga clients who chose another
intermediary. Coefficients are expressed as odds ratios. The reference group in
these choice models is Kikuyu stockbrokers, the same social and professional
categories as the expelled Nyaga brokerage, meaning the reference group is
choosing the same social and professional type of intermediary a second time.
Results broadly support H2. Coefficients on explanatory variables in table 4
show the marginal preferences of victims in each group by controlling for
district-level measures of the number of peers in each client's ethnic group
who previously chose the intermediary and the value of investments handled
by each intermediary at the time of the choice. Net of controls, ethnic rivals are
80 percent more likely to choose a non-Kikuyu stockbrokerage, 59 percent
more likely to choose a non-Kikuyu commercial bank, and 35 percent less likely
to choose a Kikuyu commercial bank than another Kikuyu stockbrokerage
(model 7). In contrast, coethnic clients are 22 percent more likely to choose a
Kikuyu commercial bank than another Kikuyu stockbrokerage but 22 percent
less likely to choose a non-Kikuyu stockbrokerage and about 16 percent less
likely to choose a non-Kikuyu commercial bank. Results in table 4 demonstrate
that net of the decisions of their peers in their district, coethnic victims prefer a
new intermediary from a different professional category, while rival victims pre-
fer a new intermediary from a different social category. For comparison, model

Table 3. Linear Probability Estimates of Investor's Participation in Post-fraud Telecom IPO*

Variable	Coethnics Model 4	Rivals Model 5	Non-rivals Model 6
Client of the corrupt brokerage, no financial loss	−.048•••	−.062•••	−.059•••
	(.003)	(.009)	(.005)
Client of the corrupt brokerage, financial loss	.015•••	−.004	.028
	(.005)	(.019)	(.008)
Controls			
Client of the previous corrupt brokerage	.021•	−.068•	−.021
	(.009)	(.034)	(.016)
Coethnic clients of corrupt brokerage (district, ln)	−.027•••	−.003	.026•••
	(.007)	(.006)	(.002)
All clients of corrupt brokerage (district, ln)	.054•••	.033•••	.014•••
	(.012)	(.007)	(.003)
Tenure in the market (months)	.000	−.000	−.000
	(.000)	(.001)	(.000)
Value of prior investments: 2nd quintile	.020•••	.024•	−.016••
	(.004)	(.010)	(.006)
Value of prior investments: 3rd quintile	.062•••	.066•••	.025•••
	(.005)	(.011)	(.006)
Value of prior investments: 4th quintile	.095•••	.100•••	.056•••
	(.005)	(.012)	(.007)
Value of prior investments: 5th quintile	.058•••	.086•••	.029•••
	(.006)	(.014)	(.008)
Profit on prior investments (ln)	.002•••	.002••	.003•••
	(.000)	(.001)	(.000)
No. past transactions (ln)	.012•	.009	.018••
	(.004)	(.011)	(.006)
Female	.299•••	.228•••	.151•••
	(.006)	(.013)	(.008)
Male	.252•••	.188•••	.109•••
	(.006)	(.012)	(.007)
Constant	−.264••	−.292•••	−.197•••
	(.083)	(.060)	(.032)
Degrees of freedom	130	127	133
No. of observations	173,537	30,977	92,606
R-squared	.102	.097	.096

• $p < .05$; •• $p < .01$; ••• $p < .001$.

* Standard errors are in parentheses. All models include fixed effect dummies for investor's district of residence and each stock held.

10 estimates the type of intermediary chosen by the 527,075 investors who made their first choice at the same time that Nyaga clients were choosing their replacement during the three-week window between the Nyaga fraud and the telecom IPO. Among new investors, all ethnic groups are more likely to choose one of the non-Kikuyu intermediaries and less likely to choose a Kikuyu commercial bank relative to a Kikuyu stockbrokerage.

Figure 5 presents the predicted probabilities of members of each ethnic group making each choice, including 95-percent confidence intervals, holding alternative-specific controls at their mean values. Including the average effect of previous peer choices and the value of peers' prior investments in this calculation provides a useful comparison with the marginal preferences shown in
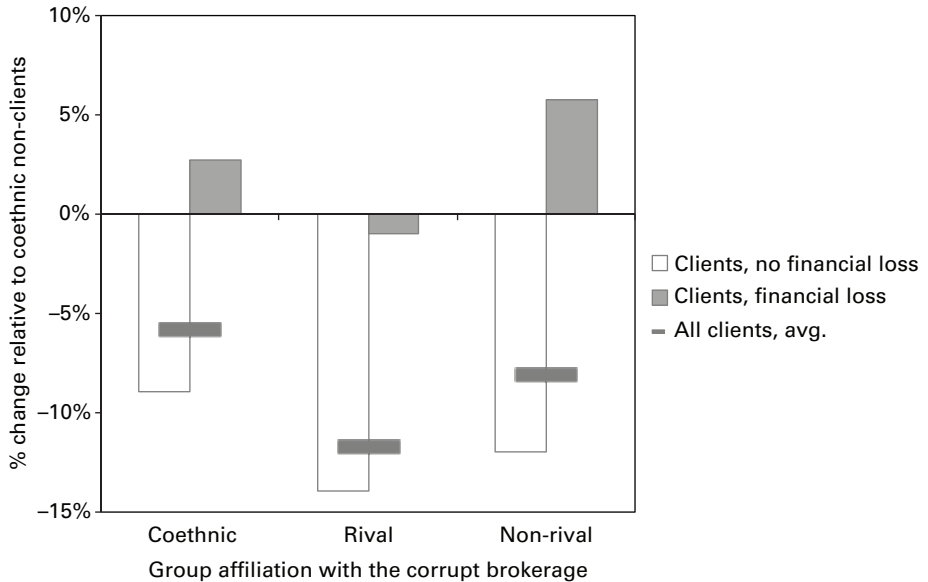
Figure 4. Investors' participation in post-fraud telecom IPO.

Panel A. Predicted probabilities, by ethnic group and victimization.
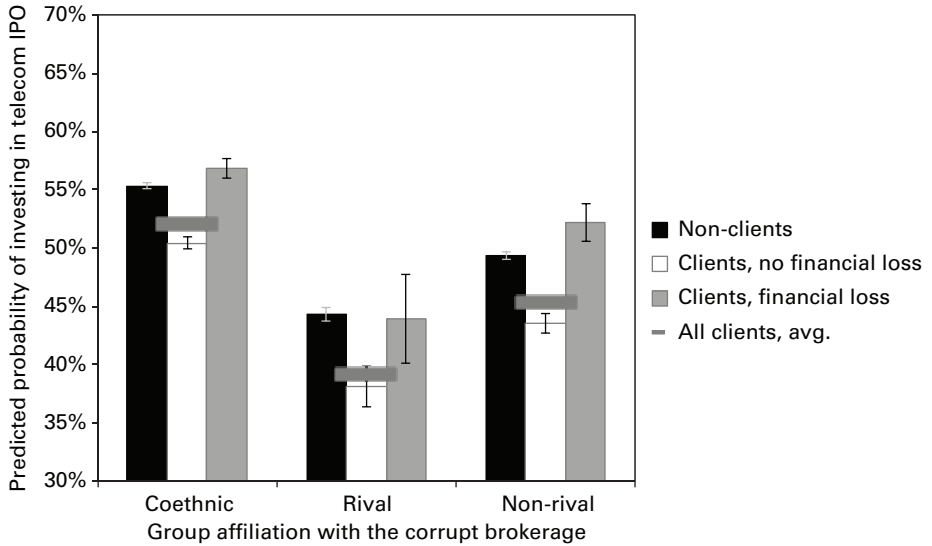
Source: Models 4-6, control variables estimated at mean values.

Panel B. Percentage change relative to coethnics who were not clients of the corrupt brokerage.

Source: Percentage change from non-clients of the corrupt brokerage in the same ethnic group.

table 4. To streamline the presentation of results, I graphically present results for all clients together in panel A, while panel B shows the predicted choices of their peers who were choosing an intermediary for the first time. Nyaga clients from all ethnic groups chose a Kikuyu stockbrokerage when they entered the market before the fraud, and among those clients who did transfer their

Table 4. Alternative-specific Conditional Logit Estimates of Post-fraud Choice of New Intermediary*

| Variable	All clients Model 7	No financial loss Model 8	Financial loss Model 9	New investors Model 10
Chose a Kikuyu commercial bank				
Coethnic	1.222•••	1.288•••	1.078	.756•••
	(.051)	(.065)	(.083)	(.006)
Rival	.654•••	.745••	.429•••	.561•••
	(.060)	(.077)	(.090)	(.008)
Non-rival	.994	1.058	.855	.603•••
	(.049)	(.061)	(.078)	(.006)
Chose a non-Kikuyu stockbrokerage				
Coethnic	.780•••	.776•••	.783••	1.533•••
	(.037)	(.043)	(.069)	(.023)
Rival	1.800•••	1.757•••	1.985•••	1.868•••
	(.134)	(.151)	(.295)	(.032)
Non-rival	1.236•••	1.262•••	1.174	1.738•••
	(.065)	(.078)	(.117)	(.026)
Chose a non-Kikuyu commercial bank				
Coethnic	.843••	.892	0.729••	2.266•••
	(.048)	(.060)	(.077)	(.036)
Rival	1.592•••	1.656•••	1.410	2.763•••
	(.147)	(.175)	(.277)	(.044)
Non-rival	1.244•••	1.298•••	1.111	2.943•••
	(.078)	(.096)	(.133)	(.041)
Controls				
No. of coethnic clients who previously chose the intermediary (district, ln)	1.035•	1.047•	1.008	2.148•••
	(.018)	(.022)	(.034)	(.012)
Value of past IPO investments handled by intermediary (district, ln)	1.414•••	1.417•••	1.410•••	1.198•••
	(.031)	(.036)	(.057)	(.005)
Log likelihood	−47,593	−33,867	−13,711	−596,791
Chi-squared	1,394	1,043	362	55,192
Degrees of freedom	11	11	11	11
No. of cases	43,391	30,940	12,451	527,075
No. of observations	173,564	123,760	49,804	2,108,300

• $p < .05$; •• $p < .01$; ••• $p < .001$.
* Standard errors are in parentheses. The reference category is choosing another Kikuyu stockbroker. Coefficients are displayed as odds ratios.

accounts, all three ethnic groups have about a 37-percent probability of making the same choice a second time (panel A) when including the effect of their peers' choices in their home district. Updated post-fraud preferences are observed in the probabilities of choosing among the alternatives. Among clients who chose a new intermediary, coethnic clients have more than an 81-percent chance of choosing another Kikuyu intermediary (37.8% + 43.5%) but show a statistically significant preference for commercial banks. In contrast, rival clients have about a 61-percent chance of choosing another Kikuyu intermediary (37.5% + 23.1%). Because all of these investors made the same initial choice of a Kikuyu intermediary, variation in their reassessments of intermediaries' integrity is seen in their updated choices among the types of organizations remaining in the market. Clients who belong to rival ethnic groups are more
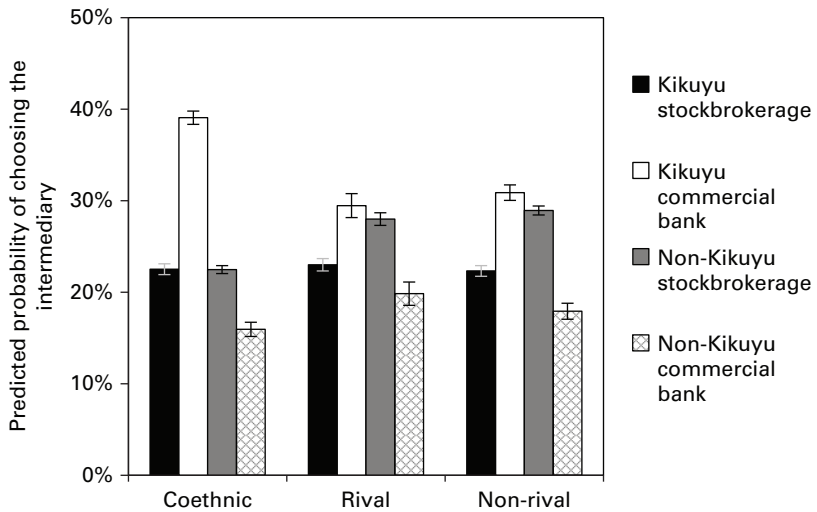
Figure 5. Predicted probabilities of new intermediary choices.

Panel A. All clients of the corrupt brokerage.
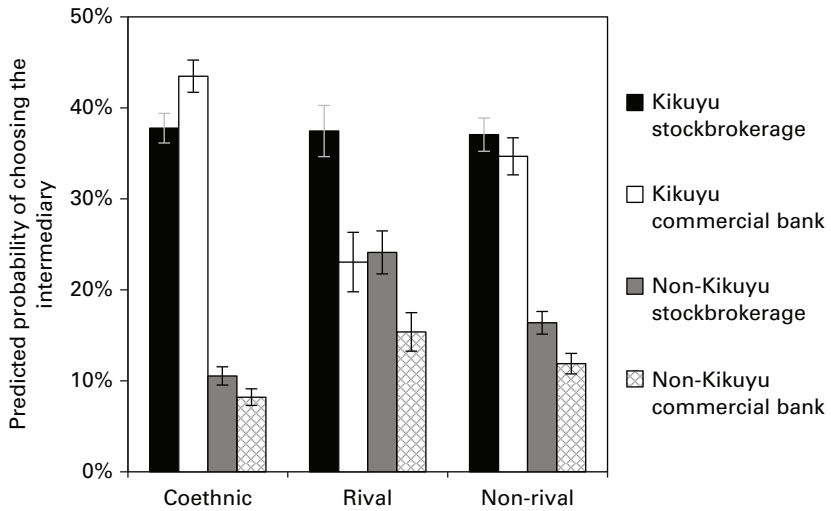
Source: Models 7-9, alternative-specific control variables estimated at mean values.

Panel B. New investors entering the market at the time of the scandal.

Source: Model 10, alternative-specific control variables estimated at mean values.

than twice as likely as coethnic clients to choose a non-Kikuyu intermediary, which shows a stronger shift away from intermediaries from the corrupt organization's social group. This is an interesting deviation from marginal preferences shown in table 3, which controlled for peers' previous actions. Victims from rival ethnic groups marginally avoided either type of Kikuyu intermediary, but the predicted probabilities in figure 5 show that rivals are more likely to choose another Kikuyu intermediary as a result of following the choices of their ethnic peers who did not directly experience the fraud.

Table 5. Ethnic Composition of Corrupt Brokerages and Transfers, by Count and Percentage

	Francis Thuo & Partners Ltd. (expelled March 2007)	Thuo clients that transferred to Nyaga	Nyaga Stockbrokers Ltd. (expelled March 2008)	Nyaga clients that transferred to any other intermediary
Kikuyu	2,767 (61%)	568 (69%)	46,132 (59%)	27,361 (63%)
Rival	195 (4%)	18 (2%)	3,558 (5%)	1,586 (4%)
Non-rival	882 (19%)	140 (17%)	16,151 (21%)	8,477 (19%)
Other	690 (15%)	92 (11%)	12,087 (16%)	5,967 (14%)
Total	4,534 (100%)	818 (100%)	77,928 (100%)	43,391 (100%)

Comparing the choices of clients of the corrupt brokerage (panel A) with their ethnic peers who chose their first intermediary at the same time (panel B) shows that coethnic clients of the corrupt brokerage have stronger preferences for coethnic intermediaries than their fellow Kikuyu investors choosing at the same time. New Kikuyu investors have only a 61-percent chance of choosing a Kikuyu intermediary (22.5% + 39.1%), which is similar to the choices of rival clients moving away from Kikuyu intermediaries. Coethnic Kikuyu clients are more likely than their best reference group (new Kikuyu investors choosing at the same time) to choose another Kikuyu intermediary after the fraud, which I interpret as a signal of particularly strong re-engagement with coethnics after the fraud.

Table 5 presents additional descriptive evidence of Kikuyu investors disproportionately remaining in coethnic transaction relationships by showing the ethnic composition of the corrupt Francis Thuo stockbrokerage (also owned and operated by Kikuyu) that was expelled from the market in the previous year, the ethnic composition of its clients who transferred to Nyaga, the composition of Nyaga clients, and the composition of Nyaga clients who remained active in the market by transferring to another intermediary. When it was expelled from the NSE in 2007, 61 percent of Francis Thuo's clients were Kikuyu, and a disproportionately high number of those Kikuyu clients and a low number of rival clients transferred to the Kikuyu-operated Nyaga brokerage. Nyaga was 59 percent Kikuyu at the time of regulatory intervention, and a disproportionately high number of Kikuyu clients and low number of rival clients transferred to another intermediary.

Results so far consistently support the argument that victims of organizational misconduct who belong to disadvantaged social out-groups, exemplified here as ethnic rivals, are more likely to generalize their integrity-based distrust of the corrupt organization to other organizations and the market's institutional regime that share its devalued social identity. The final set of models tests H3, which is designed to identify whether competence-based assessments of trustworthiness might conflict with and outweigh integrity-based concerns. Marginal preferences from table 4 indicate each group's integrity-based assessments of each type of intermediary. Table 6 presents Poisson regression estimates of the level of market participation six months after regulatory intervention, normalized by the number of shares held by the investor at the time of intervention. The outcome is a continuous measure estimated at the group level, which creates the possibility that outliers in each group could skew the group-level average. There are two reasons not to model this outcome in the same way as the dichotomous outcomes used to test H1 and H2. First, a

**Table 6. Poisson Estimates of Level of Market Participation Six Months Post-fraud***

Variable	Coethnics Model 11	Rivals Model 12	Non-rivals Model 13
Client of the corrupt brokerage, no financial loss	.116•••	.248•••	.257•••
	(.005)	(.020)	(.009)
Client of the corrupt brokerage, financial loss	.081•••	.504•••	.207•••
	(.008)	(.032)	(.014)
Non-Kikuyu stockbrokerage	−.016	−.752•••	.399•••
	(.028)	(.055)	(.029)
Non-Kikuyu commercial bank	−.707•	−2.288•••	−2.373•••
	(.281)	(.248)	(.243)
Kikuyu commercial bank	1.345•••	2.442•••	1.932•••
	(.034)	(.072)	(.036)
Client, no financial loss × Non-Kikuyu stockbrokerage	.048•••	−.373•••	.367•••
	(.014)	(.037)	(.018)
Client, no financial loss × Non-Kikuyu commercial bank	.085•••	−.719•••	.124•••
	(.017)	(.056)	(.025)
Client, no financial loss × Kikuyu commercial bank	−.600•••	−2.246•••	−.783•••
	(.008)	(.043)	(.015)
Client, financial loss × Non-Kikuyu stockbrokerage	.201•••	−.290•••	.203•••
	(.020)	(.058)	(.032)
Client, financial loss × Non-Kikuyu commercial bank	−.336•••	−.714•••	−.261•••
	(.033)	(.102)	(.045)
Client, financial loss × Kikuyu commercial bank	−.891•••	−1.746•••	−1.145•••
	(.013)	(.067)	(.026)
Controls			
Client of the previous corrupt brokerage	−.252•••	−1.040•••	−.042
	(.014)	(.057)	(.027)
Coethnic clients of corrupt brokerage (district, ln)	.064•••	−.076•••	−.139•••
	(.008)	(.007)	(.002)
All clients of corrupt brokerage (district, ln)	.063•••	.368•••	.262•••
	(.014)	(.011)	(.005)
Tenure in the market (months)	−.014•••	.154•••	−.040•••
	(.000)	(.000)	(.000)
Value of prior investments (ln)	.015•••	−.057•••	.021•••
	(.001)	(.001)	(.001)
Profit on prior investments (ln)	.005•••	.015•••	−.007•••
	(.000)	(.001)	(.000)
No. past transactions (ln)	.822•••	.831•••	.884•••
	(.005)	(.010)	(.006)
Net value of trades 90 days pre-fraud (ln)	.017•••	.022•••	.014•••
	(.001)	(.002)	(.001)
Collateralized shares	1.275•••	.604•••	.652•••
	(.005)	(.015)	(.009)
Female	.278•••	.524•••	−.414•••
	(.007)	(.016)	(.007)
Male	.534•••	.233•••	−.350•••
	(.007)	(.015)	(.007)
Constant	.010	−3.856•••	.069
	(.112)	(.118)	(.062)
Degrees of freedom	161	158	164
No. of observations	170,539	30,318	90,772
Pseudo R-squared	.168	.458	.164

• $p < .05$; •• $p < .01$; ••• $p < .001$.
* Standard errors are in parentheses. All models include fixed effect dummies for investor's district of residence, intermediary used, and each stock held.
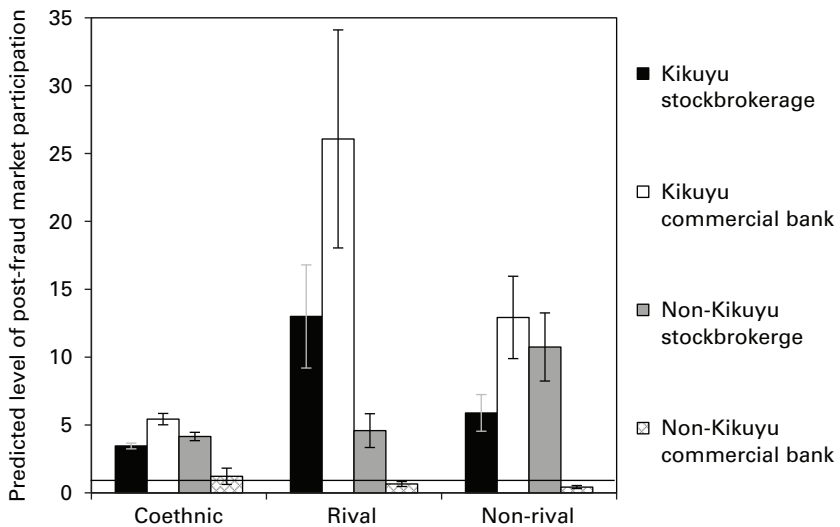
Figure 6. Predicted level of post-fraud market participation.

Panel A. Clients without a financial loss.
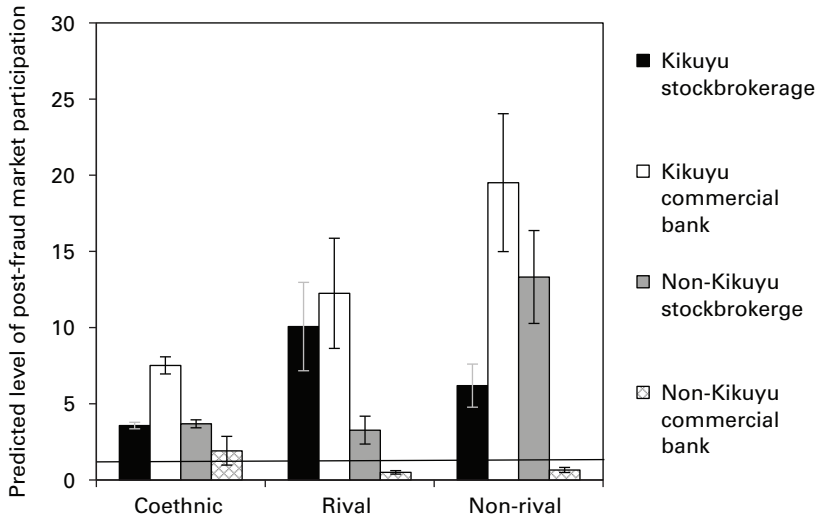
Source: Models 11 -13, control variables estimated at mean values.

Panel B. Clients with a financial loss.

Source: Models 11–13, control variables estimated at mean values.

dichotomous outcome measure of lower post-fraud market participation is infeasible because less than 1 percent of all investors in the market were net share sellers in the six months after regulatory intervention, itself an indicator of high demand for the post-fraud telecom IPO. Second, extreme outliers are of less concern given the extensive controls used in the models.

Figure 6 shows the predicted levels of future investing by intermediary used for clients without a financial loss (panel A) and with a financial loss (panel B),

including 95-percent confidence intervals and a horizontal line at the value of 1, separating net sellers from net buyers. The largest post-fraud investments made by coethnic clients of the corrupt intermediary are made through that group's most trusted intermediary, Kikuyu commercial banks. This is another indication that fraud victims who belong to the governing social group interpret fraud primarily as an integrity violation by the corrupt brokerage, which is relatively easily repaired by restructuring their transactions through an intermediary perceived to have higher integrity.

In contrast, figure 6 shows that rivals interpret the fraud quite differently. Rivals demonstrate the ''investment without integrity'' reaction presented in figure 2, with higher levels of future investing enacted via lower-integrity intermediaries. Although table 4 showed that rivals had the lowest marginal preference for Kikuyu commercial banks and Kikuyu stockbrokerages, which I interpret as attributing blame for the fraud to the low integrity of intermediaries operated by their ethnic rivals, figure 6 shows that after the fraud, rival victims with and without financial losses use these two intermediaries to make their largest investments on average. The difference between the two low-integrity Kikuyu intermediaries is statistically significant only for rival victims with a financial loss, but the key finding here is that distrusted Kikuyu intermediaries are the organizational access point used by rival victims who deepen their participation in the market after the fraud. This result is consistent with the interpretation that competence-based considerations outweigh integrity-based concerns associated with lower expectations of fair treatment for these victims.

Table 4 showed that rivals had the highest marginal preference for non-Kikuyu stockbrokerages, but this type of intermediary is used to enact positive but significantly lower levels of market participation after the fraud. Rivals' use of their highest-integrity intermediary is still associated with net increases in market participation relative to pre-fraud levels, which I interpret as a lower-magnitude version of a consistent reaction at the organization and market levels. It is not surprising that some consistency is seen among rivals, but the key finding is the lower magnitude of consistency relative to the inconsistency.

Evidence of the second type of inconsistency in reactions at the organization and market levels is seen by rivals' use of a higher-integrity intermediary after the fraud to reduce their net position in the market. Rival clients on average preferred non-Kikuyu commercial banks over any Kikuyu intermediary (table 4), but rivals who use this type of intermediary have average values for net market participation lower than 1, indicating a partial exit from the market. On average, rivals without a financial loss use these trusted intermediaries to reduce their share ownership by half, while those with a financial loss reduce their share ownership by one-third. This result is consistent with the interpretation that integrity at the organization level is insufficient to restore their trust in the market. This reaction is not exclusive to rivals, as non-rivals also had a significant marginal preference for non-Kikuyu commercial banks and also used these trusted intermediaries to enact net sales after the fraud. An alternative I cannot rule out is that rivals' and non-rivals' preferences for non-Kikuyu commercial banks are the result of these intermediaries being both socially and professionally different from the corrupt brokerage. Thus marginal preferences may not signify relative trust but rather attenuated distrust. If this is the case, these social outsider victims may distrust all available intermediaries and use the lesser of the evils available to them to reduce their positions in the market. This

alternative is consistent with the lower-left cell in figure 2, where distrust in the intermediary is positively related to withdrawal from the market.

I have interpreted rivals' inconsistent reactions at the organization and market levels to mean that competence-based trust conflicts with and can outweigh integrity-based distrust, such that victims from disadvantaged groups accept higher risks of unfair treatment to have access to transaction relationships that they believe have greater competence in the market. I tested this interpretation against two plausible alternatives in which the subset of rivals that did choose lower-integrity Kikuyu commercial banks varied in important ways from their fellow rivals who did not make that choice, rather than as group-level tradeoffs between competence and integrity. First, I considered whether this subset of rivals had a weaker sense of ethnic identity than others in their ethnic group, such that they represent a subset of rivals whose social identity was not shocked by the fraud. Second, I considered whether this subset of rivals signaled their acceptance of vulnerability as disadvantaged outsiders in the market before the fraud, such that the fraud would not have been a new stimulus but rather a confirmation of known risks involved when investing in a rival-governed market. I used a multinomial logit model to estimate which of the four types of intermediaries were chosen by rivals who did transfer. I constructed two new measures to proxy for the alternatives just mentioned. First, I used the names of all senior managers and members of the boards of directors of each listed firm at the time the rival investor purchased shares in each company to measure the ethnic identities of the firms in each rival's investment portfolio. This measure proxies for a rival's willingness to leave his or her ethnic identity out of market decisions by investing in firms managed by Kikuyu rather than the investor's own rival ethnic group. Second, I used observable levels of past activity in the market—tenure, value of past investments, profits earned, and total past transactions—to proxy for rivals' willingness to transact in a market in which they are disadvantaged social outsiders. An alternative interpretation is that these measures capture investors who have a rival surname but do not self-identify with their ethnic groups. Results showed no significant effects for any of these indicators. No available evidence suggests that the rival victims who react inconsistently at the organization and market levels do so as a result of observable attributes that suggest their identity-driven, integrity-based assessments of Kikuyu commercial banks differ from their peers' assessments.

Testing for Selection Effects

The results reported above assume there is no biasing effect of Kenyan investors from each ethnic group selecting into the Kikuyu-operated corrupt stockbrokerage or its selection of clients for stealing cash and shares. If investors from some ethnic groups were more likely to select Nyaga as their representative, or if Nyaga was more likely to target clients from some particular ethnic group, then such a selection effect would be expected to bias my results. Most importantly, if the corrupt brokerage disproportionately targeted clients from rival ethnic groups for theft, it could be that their disproportionate targeting triggered their stronger distrust of other Kikuyu intermediaries and the Kikuyu-governed market. I provide two supplementary models that estimate these outcomes. Results are presented in table A1 in the Online Appendix (http://journals.sagepub.com/doi/suppl/10.1177/0001839217694359). Model S1 is a

linear probability model estimating the likelihood that each of the 316,815 investors who entered the market before the fraud chose the Nyaga brokerage as his or her intermediary. Model S2 is a linear probability model of the corrupt brokerage stealing cash or shares from the investor's account, with theft measured using the Investor Compensation Fund records. Model S2 is estimated on the full population of 99,298 Nyaga clients rather than the 77,906 used above because some investors' accounts had assets unrelated to previous IPO investments, which are the direct comparison of pre- and post-fraud investing used above.

Predicted probabilities are presented in table A2 in the Online Appendix. Net of controls, rival investors are only 3 percentage points less likely to choose the corrupt brokerage than Kikuyu investors (model S1, table A2). Control variables in model S1 show a negative effect of higher quintiles of value of initial investment, consistent with the public image of Nyaga as a popular option for lower-income Kenyans discussed in the empirical context section above. This may suggest that the identity of this particular Kikuyu intermediary was more based on socioeconomic status, but then ethnic identity became activated through the misconduct. Additionally, correlations in table 1a show virtually no relationship between ethnic group membership and the value of initial investments made by clients of the corrupt brokerage, alleviating concerns that coethnics versus rivals differ on this important dimension.

Results from model S2 demonstrate that coethnic clients were more likely to be targeted for theft of cash and shares (see Yenkey, 2016, for a more-complete theoretical and empirical investigation of the targeting of coethnic clients for victimization, demonstrating an exploitation of assumed trust within the ethnic group). This finding suggests additional support for my arguments that social relations are a moderating factor in the formation of distrust after misconduct: coethnic victims of the fraud are more likely to continue to participate in a market governed by members of their social group despite the fact they were more likely to be targeted for theft.

Paradox of Financial Loss and Increased Market Participation

I reported results above that clients of the corrupt brokerage in all ethnic groups that experienced a verified financial loss are less likely to become inactive in the market after the fraud (table 2 and figure 3) and more likely to invest in the telecom IPO (table 3 and figure 4) than their ethnic peers without a financial loss. These results are surprising if we assume that being directly targeted for theft in a fraud is a stronger negative stimulus than merely being a client of a corrupt agent. Lower levels of account inactivity are more easily dismissed if we assume that expectations of compensation arising from interaction with the Investor Compensation Fund (ICF) required or encouraged the investor to maintain an account with some intermediary. But beyond this passive form of action in anticipation of reimbursement, growing research on trust repair (Kramer and Lewicki, 2010) might shed light on this curious result.

Victims' financial losses may paradoxically result in higher market participation rates because such loss puts them in direct contact with the Investor Compensation Fund, a state-level institution designed to repair trust following misconduct. Scholars have demonstrated that apologies and increased regulatory attention are effective repair strategies for competence-based trust violations but are ineffective for integrity-based violations because they effectively

recognize the low integrity of the betrayer (Schweitzer, Hershey, and Bradlow, 2006; Dirks et al., 2011; Kim et al., 2013). Other research has demonstrated that public institutions trying to repair trust benefit from ''hostage posting,'' which gives harmed citizens a clear way to rectify the situation (Nakayachi and Watabe, 2005). Only those Nyaga clients who experienced financial loss from direct theft in the fraud would have interacted with the ICF, and that process may have informed victims with financial losses that the state was willing to provide compensation. If investors interpret the fraud as an event that challenges the state's competence in protecting property rights, a perspective in line with most institutional research on economic development, this interaction with the state may satisfy concerns by communicating state-level attention to misconduct in the market and shifting the victim's sensemaking of the fraud away from an integrity-based market violation to one of state-level competency. The evidence suggests, however, that this explanation is consistent with the argument that social relations moderate the formation of distrust. Figure 4 shows that coethnic victims who interact with the ICF have the highest probability of investing after the fraud; in fact, coethnic victims whose claims are verified by the ICF are significantly more likely to invest in the telecom IPO than non-victimized coethnics. Though rival victims whose claims are processed by the ICF are more likely than rival victims without that contact to invest in the telecom IPO, they are no more likely than rival non-victims to do so. These differences suggest that coethnics experience a somewhat higher sense of trust repair than rivals when they interact with the state's investor protection apparatus.

If state-level competence is the basis for trusting the market, we would expect its signal of increased diligence to be effective only for a short time if its commitment amounts to mere ''cheap talk'' (Farrell and Rabin, 1996; Dirks et al., 2011). The ICF took no less than a year and a half to provide (sometimes partial) reimbursements. Victims with financial losses who participated in the telecom IPO shortly after the fraud likely did so expecting reimbursements from the ICF but had not yet received them. We would expect that victims with a financial loss would be less likely to participate in the next post-fraud IPO, the privatization of well-regarded Cooperative Bank Trust six months later, because they would have come to doubt the efficacy of the ICF. Unfortunately, my data will not support this analysis because demand for this second IPO was exogenously reduced by the global financial crisis that started between the two IPOs. The financial crisis resulted in a mass exit of foreign investors from the NSE, which triggered a crash in the price of the telecom shares and fundamentally damaged the market's image and attractiveness. Future research should identify settings in which the effects of such post-fraud interventions can be observed.

DISCUSSION

Organization scholars have a well-developed understanding of the antecedents of trust and, after it is violated, clear explanations for how negative evaluations diffuse to independent actors, as well as strategies for repairing the damage done. Fraud victims experience a violation of trust, but this paper shows that victims vary in how they make sense of the event and avoid future transactions (or not) as a result. This variation is seen only when disaggregating the study population according to theoretically important matches between their

individual attributes and the environment in which they act, the primary focus of H1 and H2. A common feature of research on organizational stigma (Devers et al., 2009; Jonsson, Greve, and Fujiwara-Greve, 2009), as well as research on market development in finance (Guiso, Sapienza, and Zingales, 2004, 2008), development economics (Zak and Knack, 2001; Easterly, Ritzen, and Woolcock, 2006), and political science (Alesina et al., 2003; Posner, 2004), is a focus on the aggregate effect of negative events. Disaggregating victims' reactions speaks to core areas of interest in organization theory around misconduct and its effects in a manner that relates to research on market development. In this way, this paper complements two recent works. First, Abascal and Baldassarri (2015) reexamined research in political science and economics that concludes that ethno-racial diversity negatively affects trust and social capital and found that the negative relationship between ethnic diversity (i.e., fractionalization) and trust is a result of locally dominant social groups reacting negatively to heterophilous others rather than diversity per se reducing trust across all groups. Based on this result, the authors persuasively argued that social capital does not provide uniformly positive externalities and that we should update our conceptualization of social capital away from ''mechanisms of mechanical solidarity rooted in similarity and homogeneity'' and instead pay closer attention to the more-complex ''building blocks of organic solidarity'' that arise in more macro-level populations (Abascal and Baldassarri, 2015: 757–758). Second, ethnocentrism in the initial diffusion of the practice of shareholding in Kenya is itself a product of potential investors' exposure to corruption (Yenkey, 2015). In the process of new investor recruitment, potential investors from the dominant Kikuyu group consider the prior performance experiences of all existing investors when deciding whether to buy shares, but members of rival ethnic groups are actually repulsed by profits earned by distrusted ethnic outsiders, interpreting such profits as evidence that the market is capable of producing positive returns but not trusting that they will have fair access to those returns. These recent papers together with the results reported here demonstrate the value of disaggregating behaviors of key stakeholder groups to provide more fine-grained explanations of intergroup trust in diverse, complex societies.

H3 provides an additional level of disaggregation beyond the group-level predictions of H1 and H2 by providing a framework for considering variation within each ethnic group. H3 is, by design, more exploratory and seeks to provide a map of some of the more-complex behavioral terrain that characterizes reactions to misconduct. Mapping victims' reactions at the organization and market levels confirms that the elite social group in the market experienced the fraud committed by members of its own group more superficially, requiring only the replacement of the corrupt intermediary with one perceived to be more trustworthy. Disadvantaged social outsiders, however, display a wider range of reactions. Some rivals experience the fraud similarly to coethnic victims by using higher-integrity intermediaries to invest larger sums after the fraud, albeit at a lower magnitude than coethnic victims. But a subset of rivals experience fraud as a deeper conflict between integrity and competence; rivals who make the largest investments after the fraud do so via intermediaries perceived by their group to have the lowest integrity. The results from tests of H3, however, do not tell us why victims from rival ethnic groups sort into these outcomes. A supplementary analysis found no distinguishable variation among rivals according to the strength of their ethnic identities or their longer-term acceptance of

minority status in the market. Future research searching for mechanisms to explain this result may benefit by linking to the micro-organizational literatures on trust repair (e.g., Finkel et al., 2002; Nakayachi and Watabe, 2005; Schweitzer, Hershey, and Bradlow, 2006; Dirks et al., 2011; Kim et al., 2013). A critical difference between micro and macro approaches to trust repair, however, is that trust repair at the interpersonal or intraorganizational level occurs within embedded relationships between the trustor and trustee, while trust repair at the macro (market) level occurs in environments of arm's-length transactions embedded in a range of formal and informal institutions as well as a changing set of alternative organizations available to serve as the next transaction partner. Scholars seeking generalizable explanations of reactions to misconduct will find productive similarities and differences across these levels.

In addition to contributing a deeper understanding of the effects of misconduct by disaggregating stakeholders' responses, the results reported here provide an opportunity to expand organizational research on the benefits of diversity to market-level outcomes. The widely touted benefits of diversity include expanded innovation and problem solving resulting from the inclusion of diverse but complementary skillsets. Although the majority of this research takes place at the interpersonal and intraorganizational levels, recent research argues that social diversity plays a similar role at the market level. In a multi-country experiment, Levine et al. (2014) found that socially diverse groups of traders are more likely to question the underlying price of an asset and thus are less likely to contribute to price bubbles resulting from herd trading. The implication of this finding is that socially diverse markets may be more efficient relative to homogeneous markets because their participants are less likely to make assumptions about the degree to which fundamental value is captured by current prices.

The results reported here suggest a related but distinct direction for future research. If each episode of misconduct filters out diverse social groups because members of minority groups are less likely to participate, then fraud alters the social composition of a market in a way that may reduce future incentives for stronger governance rather than increase them. Monitoring and enforcement of pro-social behavior has long been associated with social homogeneity, as similarity facilitates the transmission of information and adherence to shared social norms. But if members of the market's dominant social group underreact to misconduct relative to members of minority groups, markets characterized by a governing elite may be less likely to effectively self-regulate misconduct. Organizational scholars demonstrate a similar outcome at the intraorganizational level, finding that cohesive groups are prone to assuming trustworthy behavior and thus reduce actual monitoring (Dyer and Chu, 2003; Szulanski, Cappetta, and Jensen, 2004), which creates an opportunity for norm violations (Gargiulo and Ertug, 2006). This possibility suggests an endogenous theory of repeated misconduct: the more frequent misconduct is, the less likely that enforcement and reform will occur, because the more homogeneous population of market participants who continue to participate after the misconduct are less likely to require reforms. For this reason, repeated external calls to strengthen state-level formal regulations in weak institutional environments in developing countries (Easterly and Levine, 1997; La Porta et al., 1997; Glaeser et al., 2004; Fafchamps, 2006; Baliamoune-Lutz, 2011) are unlikely to break the cycle of corruption. The benefit of strengthening legal regimes capable of protecting investors' property rights is clear (Guillén and Capron, 2016), but the

social and political economy embedded in social identities inhibits the formation and diffusion of distrust in a population of market participants and suggests an explanation for the persistence of weak institutional regimes. The findings presented here suggest that the negative effect of misconduct on markets is compounded by the fact that it alters the composition of participants in a market toward the group that is least sensitive to it, which lowers incentives for adopting stronger governance standards.

Future Research

This paper reports results of a unique behavioral study of market participation following an episode of organizational misconduct. Research and casual observation of markets both demonstrate that fraud and other integrity violations are common, yet the market institutions in which these violations occur persist. My results provide a political economy perspective on how organizational misconduct affects, or more importantly does not affect, the formation of distrust and subsequent decisions on market participation. Research tends to focus on negative outcomes as the reciprocal of positive ones, but my results show that distrust is governed by a more-complex set of mechanisms than can be explained by the mere lack of trust.

   The conditions under which the fraud studied here occurred should generalize to a number of other developing markets also characterized by elite governing social groups. For example, members of India's elite Brahmin caste occupy the majority of seats on India's National Stock Exchange, while white South Africans hold twice as many seats as blacks on the Johannesburg Stock Exchange's board of directors. Beyond exogenously assigned identities derived from race, ethnicity, and caste, identities based on socioeconomic class may also affect reactions to misconduct. This is a particularly relevant avenue for addressing reactions to fraud and corruption given that international development institutions are focused on recruiting low-income residents of developing countries into formal-sector financial organizations (Armijo, 2001; Allen et al., 2012; Cull, Demirgüç-Kunt, and Morduch, 2013). This practice puts a greater portion of lower-class members of developing societies in contact with formal-sector fraud and corruption committed by upper-class members. My results predict this would have a disproportionately negative effect on continued market participation by these socio-economic outsiders, which would have significant implications for continued efforts to foster participation in and growth of the formal sector.

   This single case study has limitations. It does not investigate the effects of misconduct committed by an organization that does not represent the elite governing social group or the effects of organizational misconduct on market legitimacy when the market's governance regime is socially diverse. One possibility to explore is whether misconduct in more pluralistic societies signals more competence-based concerns in the state, because there is a less clear social target for integrity-based concerns. If this is true, the endogenous theory of misconduct outlined above may be less likely to hold in plural societies. Future research will want to attend to cross-national differences in the effects of misconduct.

   I hope this study stimulates new directions in research on organization misconduct. Organizational research on wrongdoing has gained momentum in recent years by focusing on detecting and preventing fraud (Palmer, 2008;

Cecchini et al., 2010; Corona and Randhawa, 2010; Greve, Palmer, and Pozner, 2010; Prechel and Morris, 2010; Palmer, 2012). Other studies document the detrimental effects of corrupt behavior, most often by studying organizational-level changes in share prices following suspicious behaviors, such as earnings restatements (Palmrose, Richardson, and Scholz, 2004; Sharkey, 2014) or investments in firms that resemble known deviant organizations (Jensen, 2006; Jonsson, Greve, and Fujiwara-Greve, 2009; Pontikes, Negro, and Rao, 2010). This study demonstrates that research on organizational misconduct can productively grow by studying the effect of social relations between victims and perpetrators on reactions to the misconduct at multiple levels. This study, using ethnic identities as measures of social proximity, has shown how complex such effects can be.

REFERENCES

Abascal, M., and D. Baldassarri
    2015 ''Love thy neighbor? Ethnoracial diversity and trust reexamined.'' American Journal of Sociology, 121: 722–782.
Alesina, A., A. Devleeschauwer, W. Easterly, S. Kurlat, and R. Wacziarg
    2003 ''Fractionalization.'' Journal of Economic Growth, 8: 155–194.
Allen, F., A. Demirgüç-Kunt, L. Klapper, and M. S. Martinez Peria
    2012 ''The foundations of financial inclusion: Understanding ownership and use of formal accounts.'' Policy Research Working Paper 6290. http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6290.
Armijo, L. E. (ed.)
    2001 Financial Globalization and Democracy in Emerging Markets. London: Palgrave Macmillan.
Arrow, K. J.
    1974 The Limits of Organization. New York: W. W. Norton.
Aven, B. L.
    2015 ''The paradox of corrupt networks: An analysis of organizational crime at Enron.'' Organization Science, 26: 980–996.
Baliamoune-Lutz, M.
    2011 ''Trust-based social capital, institutions, and development.'' Journal of Socio-Economics, 40: 335–346.

Barber, B. M., and T. Odean
    2008 ''All that glitters: The effect of attention and news on the buying behavior of
    individual and institutional investors.'' Review of Financial Studies, 21: 785–818.
Barkan, J. D.
    2004 ''Kenya after Moi.'' Foreign Affairs, February. http://www.foreignaffairs.com/
    articles/59535/joel-d-barkan/kenya-after-moi.
Baucus, M. S., and David A. Baucus
    1997 ''Paying the piper: An empirical examination of longer-term financial conse-
    quences of illegal corporate behavior.'' Academy of Management Journal, 40:
    129–151.
Baumeister, R. F., E. Bratslavsky, C. Finkenauer, and K. D. Vohs
    2001 ''Bad is stronger than good.'' Review of General Psychology, 5: 323–370.
Beckert, J.
    2006 ''Trust and markets.'' In R. Bachmann and A. Zaheer (eds.), Handbook of Trust
    Research: 318–331. Cheltenham: Edward Elgar.
Berg, J., J. Dickhaut, and K. McCabe
    1995 ''Trust, reciprocity, and social history.'' Games and Economic Behavior, 10:
    122–142.
Bernhard, H., E. Fehr, and U. Fischbacher
    2006 ''Group affiliation and altruistic norm enforcement.'' American Economic
    Review, 96: 217–221.
Bottomore, T.
    1993 Elites and Society. London: Routledge.
Brewer, M. B.
    1968 ''Determinants of social distance among East African tribal groups.'' Journal of
    Personality and Social Psychology, 10: 279–289.
Brewer, M. B.
    1981 ''Ethnocentrism and its role in interpersonal trust.'' In M. B. Brewer and B.
    Collins (eds.), Scientific Inquiry and the Social Sciences, 345–359. San Francisco:
    Jossey-Bass.
Brewer, M. B., and M. Silver
    1978 ''Ingroup bias as a function of task characteristics.'' European Journal of Social
    Psychology, 8: 393–400.
Camerer, C.
    2003 Behavioral Game Theory: Experiments in Strategic Interaction. Princeton, NJ:
    Princeton University Press.
Cameron, A. C., and P. K. Trivedi
    2010 Microeconometrics Using Stata, 2d ed. College Station, TX: Stata Press.
Carr, P., and C. Steele
    2010 ''Stereotype threat affects financial decision making.'' Psychological Science,
    21: 1411–1416.
Cecchini, M., H. Aytug, G. J. Koehler, and P. Pathak
    2010 ''Detecting management fraud in public companies.'' Management Science, 56:
    1146–1160.
Cohen, G., and C. Steele
    2002 ''A barrier of mistrust: How negative stereotypes affect cross-race mentoring.''
    In J. Aronson (ed.), Improving Academic Achievement: Impact of Psychological Fac-
    tors on Education: 303–327. San Diego: Academic Press.
Coleman, J. S.
    1990 Foundations of Social Theory. Cambridge, MA: Harvard University Press.
Cook, K. S., R. Hardin, and M. Levi
    2007 Cooperation without Trust? Russell Sage Foundation Series on Trust, IX. New
    York: Russell Sage Foundation.

Corona, C., and R. S. Randhawa
    2010 ''The auditor's slippery slope: An analysis of reputational incentives.'' Manage-
    ment Science, 56: 924–937.
Cull, R. J., A. Demirgüç-Kunt, and J. Morduch (eds.)
    2013 Banking the World: Empirical Foundations of Financial Inclusion. Cambridge,
    MA: MIT Press.
Daily Nation
    2009 ''Nyaga investors get refunds.'' Nov. 17. http://www.nation.co.ke/business/
    news/-/1006/687368/-/iekkjdz/-/index.html.
Davidson, W. N., III, D. L. Worrell, and C. I. Lee
    1994 ''Stock market reactions to announced corporate illegalities.'' Journal of Busi-
    ness Ethics, 13: 979–987.
Dercon, S., and R. Gutiérrez-Romero
    2012 ''Triggers and characteristics of the 2007 Kenyan electoral violence.'' World
    Development, 40: 731–744.
Devers, C. E., T. Dewett, Y. Mishina, and C. A. Belsito
    2009 ''A general theory of organizational stigma.'' Organization Science, 20: 154–171.
Diamond, L.
    1987 ''Class formation in the swollen African state.'' Journal of Modern African Stud-
    ies, 25: 567–596.
Dirks, K. T., and D. L. Ferrin
    2001 ''The role of trust in organizational settings.'' Organization Science, 12:
    450–467.
Dirks, K. T., P. H. Kim, D. L. Ferrin, and C. D. Cooper
    2011 ''Understanding the effects of substantive responses on trust following a trans-
    gression.'' Organizational Behavior and Human Decision Processes, 114: 87–103.
Dirks, K. T., R. J. Lewicki, and A. Zaheer
    2009 ''Repairing relationships within and between organizations: Building a concep-
    tual foundation.'' Academy of Management Review, 34: 68–84.
Dyer, J. H., and W. Chu
    2003 ''The role of trustworthiness in reducing transaction costs and improving perfor-
    mance: Empirical evidence from the United States, Japan, and Korea.'' Organization
    Science, 14: 57–68.
Easterly, W., and R. Levine
    1997 ''Africa's growth tragedy: Policies and ethnic divisions.'' Quarterly Journal of
    Economics, 112: 1203–1250.
Easterly, W., J. Ritzen, and M. Woolcock
    2006 ''Social cohesion, institutions, and growth.'' Economics and Politics, 18:
    103–120.
Elangovan, A. R., and D. L. Shapiro
    1998 ''Betrayal of trust in organizations.'' Academy of Management Review, 23:
    547–566.
Ensminger, J.
    1996 Making a Market: The Institutional Transformation of an African Society.
    Cambridge: Cambridge University Press.
Fafchamps, M.
    2006 ''Development and social capital.'' Journal of Development Studies, 42:
    1180–1198.
Farrell, J., and M. Rabin
    1996 ''Cheap talk.'' Journal of Economic Perspectives, 10: 103–118.
Fearon, J. D., and D. D. Laitin
    1996 ''Explaining interethnic cooperation.'' American Political Science Review, 90:
    715–735.

Finkel, E. J., C. E. Rusbult, M. Kumashiro, and P. A. Hannon
2002 ''Dealing with betrayal in close relationships: Does commitment promote forgiveness?'' Journal of Personality and Social Psychology, 82: 956–974.

Foddy, M., M. Platow, and T. Yamagishi
2009 ''Group-based trust in strangers: The role of stereotypes and expectations.'' Psychological Science, 20: 419–422.

Fosu, A., R. Bates, and A. Hoeffler
2006 ''Institutions, governance and economic development in Africa: An overview.'' Journal of African Economies, 15: 1–9.

FSD Kenya
2009 FinAccess National Survey, 2009: Dynamics of Kenya's Changing Financial Landscape. Nairobi: FSD Kenya, Central Bank of Kenya.

Fukuyama, F.
1995 Trust: The Social Virtues and the Creation of Prosperity. New York: Free Press.

Gakeri, J.
2012 ''Regulating Kenya's securities markets: An assessment of the capital markets authority's enforcement jurisprudence.'' International Journal of Humanities and Social Science, 2 (20): 265–291.

Gargiulo, M., and G. Ertug
2006 ''The dark side of trust.'' In R. Bachmann and A. Zaheer (eds.), Handbook of Trust Research: 165–186. Cheltenham, UK: Edward Elgar.

Geertz, C.
1962 ''The rotating credit association: A 'middle rung' in development.'' Economic Development and Cultural Change, 10: 241–263.

Georgarakos, D., and G. Pasini
2011 ''Trust, sociability, and stock market participation.'' Review of Finance, 15: 693–725.

Gikunju, W.
2007 ''Kenya: The dark side of Nairobi Stock Exchange.'' East African Standard (Nairobi), Feb. 26. http://allafrica.com/stories/200702261610.html.

Gikunju, W.
2008 ''Kenya: Regulator puts Nyaga stocks under statutory management.'' Business Daily. http://allafrica.com/stories/200803051039.html.

Gillespie, N., and G. Dietz
2009 ''Trust repair after an organization-level failure.'' Academy of Management Review, 34: 127–145.

Glaeser, E. L., R. La Porta, F. Lopez-De-Silanes, and A. Shleifer
2004 ''Do institutions cause growth?'' Journal of Economic Growth, 9: 271–303.

Goffman, E.
1963 Stigma: Notes on the Management of Spoiled Identity. New York: Prentice Hall.

Granovetter, M.
1985 ''Economic action and social structure: The problem of embeddedness.'' American Journal of Sociology, 91: 481–510.

Greve, H. R., D. Palmer, and J.-E. Pozner
2010 ''Organizations gone wild: The causes, processes, and consequences of organizational misconduct.'' Academy of Management Annals, 4: 53–107.

Guillén, M. F., and L. Capron
2016 ''State capacity, minority shareholder protections, and stock market development.'' Administrative Science Quarterly, 61: 125–160.

Guiso, L., P. Sapienza, and L. Zingales
2004 ''The role of social capital in financial development.'' American Economic Review, 94: 526–556.

Guiso, L., P. Sapienza, and L. Zingales
    2008 ''Trusting the stock market.'' Journal of Finance, 63: 2557–2600.
Hardin, R.
    2006 Trust. Key Concepts in the Social Sciences. Cambridge: Polity.
Hardin, R. (ed.)
    2009 Distrust. Russell Sage Foundation Series on Trust 8. New York: Russell Sage
    Foundation.
Hargreaves Heap, S. P., and D. J. Zizzo
    2009 ''The value of groups.'' American Economic Review, 99: 295–323.
Ingram, P., and A. Lifschitz
    2006 ''Kinship in the shadow of the corporation: The interbuilder network in Clyde
    River shipbuilding, 1711–1990.'' American Sociological Review, 71: 334–352.
Jensen, M.
    2006 ''Should we stay or should we go? Accountability, status anxiety, and client
    defections.'' Administrative Science Quarterly, 51: 97–128.
Jonsson, S., H. R. Greve, and T. Fujiwara-Greve
    2009 ''Undeserved loss: The spread of legitimacy loss to innocent organizations in
    response to reported corporate deviance.'' Administrative Science Quarterly, 54:
    195–228.
Kalnins, A., and W. Chung
    2006 ''Social capital, geography, and survival: Gujarati immigrant entrepreneurs in the
    U.S. lodging industry.'' Management Science, 52: 233–247.
Kim, P. H., C. D. Cooper, K. T. Dirks, and D. L. Ferrin
    2013 ''Repairing trust with individuals vs. groups.'' Organizational Behavior and
    Human Decision Processes, 120: 1–14.
Knack, S., and P. Keefer
    1997 ''Does social capital have an economic payoff? A cross-country investigation.''
    Quarterly Journal of Economics, 112: 1251–1288.
Kramer, R.
    1999 ''Trust and distrust in organizations: Emerging perspectives, enduring ques-
    tions.'' Annual Review of Psychology, 50: 569–598.
Kramer, R. M., and R. J. Lewicki
    2010 ''Repairing and enhancing trust: Approaches to reducing organizational trust def-
    icits.'' Academy of Management Annals, 4: 245–277.
Landa, J.
    1995 Trust, Ethnicity, and Identity: Beyond the New Institutional Economics of Ethnic
    Trading Networks, Contract Law, and Gift-Exchange. Ann Arbor, MI: University of
    Michigan Press.
La Porta, R., F. Lopez-De-Silanes, A. Shleifer, and R. W. Vishny
    1997 ''Legal determinants of external finance.'' Journal of Finance, 52: 1131–1150.
Lawler, E. J.
    1992 ''Affective attachments to nested groups: A choice-process theory.'' American
    Sociological Review, 57: 327–339.
Levine, S. S., E. P. Apfelbaum, M. Bernard, V. L. Bartelt, E. J. Zajac, and D. Stark
    2014 ''Ethnic diversity deflates price bubbles.'' Proceedings of the National Academy
    of Sciences, 111: 18524–18529.
Lewicki, R. J., D. J. McAllister, and R. J. Bies
    1998 ''Trust and distrust: New relationships and realities.'' Academy of Management
    Review, 23: 438–458.
Link, B. G., and J. C. Phelan
    2001 ''Conceptualizing stigma.'' Annual Review of Sociology, 27: 363–385.
Major, B., and L. T. O'Brien
    2005 ''The social psychology of stigma.'' Annual Review of Psychology, 56: 393–421.

Masakhalia, A. E.
    2014 ''Focus on tribalism in Kenya.'' openDemocracy. Accessed Oct. 24. https://
    www.opendemocracy.net/alan-e-masakhalia/focus-on-tribalism-in-kenya.
McEvily, B., V. Perrone, and A. Zaheer
    2003 ''Trust as an organizing principle.'' Organization Science, 14: 91–103.
McFadden, D. L.
    1974 ''Conditional logit analysis of qualitative choice behavior.'' In P. Zarembka (ed.),
    Frontiers in Econometrics: 105–142. New York: Academic Press.
Mendoza, S. A., S. P. Lane, and D. M. Amodio
    2014 ''For members only: Ingroup punishment of fairness norm violations in the ulti-
    matum game.'' Social Psychological and Personality Science, 5: 662–670.
Mills, C. W.
    1956 The Power Elite. Oxford: Oxford University Press.
Mukumu, I.
    2009 ''CMA on the spot over crisis in stock market.'' Business Daily, Feb. 19.
Nakayachi, K., and M. Watabe
    2005 ''Restoring trustworthiness after adverse events: The signaling effects of volun-
    tary 'hostage posting' on trust.'' Organizational Behavior and Human Decision Pro-
    cesses, 97: 1–17.
Naumovska, I., E. Zajac, and P. M. Lee
    2013 ''A case of stock market prejudice? Evidence from the Chinese (reverse
    merger) bubble.'' Academy of Management Proceedings, 2013: 17395.
Ngugi, R. W.
    2003 Development of the Nairobi Stock Exchange: A Historical Perspective. Nairobi:
    Kenya Institute for Public Policy Research and Analysis.
Nunn, N., and L. Wantchekon
    2011 ''The slave trade and the origins of mistrust in Africa.'' American Economic
    Review, 101: 3221–3252.
Palmer, D.
    2008 ''Extending the process model of collective corruption.'' In A. P. Brief and B. M.
    Staw (eds.), Research in Organizational Behavior, 28: 107–135. New York: Elsevier.
Palmer, D.
    2012 Normal Organizational Wrongdoing: A Critical Analysis of Theories of Miscon-
    duct in and by Organizations. New York: Oxford University Press.
Palmer, D., and C. B. Yenkey
    2015 ''Drugs, sweat, and gears: An organizational analysis of performance-enhancing
    drug use in the 2010 Tour de France.'' Social Forces, 94: 891–922.
Palmrose, Z.-V., V. J. Richardson, and S. Scholz
    2004 ''Determinants of market reactions to restatement announcements.'' Journal of
    Accounting and Economics, 37: 59–89.
Paruchuri, S., and V. F. Misangyi
    2015 ''Investor perceptions of financial misconduct: The heterogeneous contamina-
    tion of bystander firms.'' Academy of Management Journal, 58: 169–194.
Pescosolido, B. A., and J. K. Martin
    2015 ''The stigma complex.'' Annual Review of Sociology, 41: 87–116.
Pettigrew, T. F., and L. R. Tropp
    2006 ''A meta-analytic test of intergroup contact theory.'' Journal of Personality and
    Social Psychology, 90: 751–783.
Pettigrew, T. F., and L. R. Tropp
    2011 When Groups Meet: The Dynamics of Intergroup Contact. New York: Hove,
    West Sussex: Psychology Press.
Pillutla, M. M., D. Malhotra, and J. K. Murnighan
    2003 ''Attributions of trust and the calculus of reciprocity.'' Journal of Experimental
    Social Psychology, 39: 448–455.

Pontikes, E., G. Negro, and H. Rao
    2010 ''Stained red: A study of stigma by association to blacklisted artists during the 'red scare' in Hollywood, 1945 to 1960.'' American Sociological Review, 75: 456–478.
Portes, A., and L. Jensen
    1989 ''The enclave and the entrants: Patterns of ethnic enterprise in Miami before and after Mariel.'' American Sociological Review, 54: 929–949.
Portes, A., and J. Sensenbrenner
    1993 ''Embeddedness and immigration: Notes on the social determinants of economic action.'' American Journal of Sociology, 98: 1320–1350.
Posner, D. N.
    2004 ''Measuring ethnic fractionalization in Africa.'' American Journal of Political Science, 48: 849–863.
Prechel, H., and T. Morris
    2010 ''The effects of organizational and political embeddedness on financial malfeasance in the largest U.S. corporations: Dependence, incentives, and opportunities.'' American Sociological Review, 75: 331–354.
Putnam, R. D.
    1993 Making Democracy Work: Civic Traditions in Modern Italy. Princeton, NJ: Princeton University Press.
Rivera, L. A.
    2008 ''Managing 'spoiled' national identity: War, tourism, and memory in Croatia.'' American Sociological Review, 73: 613–634.
Rousseau, D. M., S. B. Sitkin, R. S. Burt, and C. Camerer
    1998 ''Not so different after all: A cross-discipline view of trust.'' Academy of Management Review, 23: 393–404.
Sanga, B.
    2008 ''Distrust in share trading triggers exit from NSE.'' Business Daily, Nov. 4.
Schoorman, F. D., R. C. Mayer, and J. H. Davis
    2007 ''An integrative model of organizational trust: Past, present, and future.'' Academy of Management Review, 32: 344–354.
Schweitzer, M. E., J. C. Hershey, and E. T. Bradlow
    2006 ''Promises and lies: Restoring violated trust.'' Organizational Behavior and Human Decision Processes, 101: 1–19.
Sharkey, A. J.
    2014 ''Categories and organizational status: The role of industry status in the response to organizational deviance.'' American Journal of Sociology, 119: 1380–1433.
Sitkin, S. B., and N. L. Roth
    1993 ''Explaining the limited effectiveness of legalistic 'remedies' for trust/ distrust.'' Organization Science, 4: 367–392.
Standard Media Group
    2009 ''Report reveals depth of rot at stock market.'' Standard Digital News. http://www.standardmedia.co.ke/business/article/1144006382/report-reveals-depth-of-rot-at-stock-market?pageNo=2.
Steele, C. M.
    1997 ''A threat in the air: How stereotypes shape intellectual identity and performance.'' American Psychologist, 52: 613–629.
Steele, C. M., S. J. Spencer, and J. Aronson
    2002 ''Contending with groups image: The social psychology of stereotype and social identity threat.'' Advances in Experimental Social Psychology, 34: 379–440.
Stets, J., and P. Burke
    2000 ''Identity theory and social identity theory.'' Social Psychology Quarterly, 63: 224–237.

Stone, J.
   2002 ''Battling doubt by avoiding practice: The effects of stereotype threat on self-handicapping in white athletes.'' Personality and Social Psychology Bulletin, 28: 1667–1678.
Szulanski, G., R. Cappetta, and R. J. Jensen
   2004 ''When and how trustworthiness matters: Knowledge transfer and the moderating effect of casual ambiguity.'' Organization Science, 15: 600–613.
Tajfel, H.
   1974 ''Social identity and intergroup behaviour.'' Social Science Information, 13: 65–93.
Tajfel, H., and J. C. Turner
   1986 ''The social identity theory of intergroup behavior.'' In S. Worchel and W. G. Austin (eds.), Psychology of Intergroup Relations, 2d ed.: 7–24. Chicago: Nelson Hall.
Thébaud, S.
   2015 ''Status beliefs and the spirit of capitalism: Accounting for gender biases in entrepreneurship and innovation.'' Social Forces, 94: 61–86.
Thielke, T.
   2007 ''Violence flares after disputed election: Over 120 killed in Kenya clashes.'' Spiegel Online. http://www.spiegel.de/international/world/violence-flares-after-disputed-election-over-120-killed-in-kenya-clashes-a-525984.html.
Uzzi, B.
   1996 ''The sources and consequences of embeddedness for the economic performance of organizations: The network effect.'' American Sociological Review, 61: 674–698.
Uzzi, B., and R. Lancaster
   2003 ''Relational embeddedness and learning: The case of bank loan managers and their clients.'' Management Science, 49: 383–399.
van Ufford, P. Q., and F. Zaal
   2004 ''The transfer of trust: Ethnicities as economic institutions in the livestock trade in West and East Africa.'' Africa, 74: 121–145.
Vergne, J.-P.
   2012 ''Stigmatized categories and public disapproval of organizations: A mixed-methods study of the global arms industry, 1996–2007.'' Academy of Management Journal, 55: 1027–1052.
Woolcock, M.
   1998 ''Social capital and economic development: Toward a theoretical synthesis and policy framework.'' Theory and Society, 27: 151–208.
Wrong, M.
   2009 It's Our Turn to Eat: The Story of a Kenyan Whistle-Blower. New York: Harper.
Yamagishi, T., and K. S. Cook
   1993 ''Generalized exchange and social dilemmas.'' Social Psychology Quarterly, 56: 235–248.
Yenkey, C. B.
   2015 ''Mobilizing a market: Ethnic segmentation and investor recruitment into the Nairobi securities exchange.'' Administrative Science Quarterly, 60: 561–595.
Yenkey, C. B.
   2016 ''Embedded in fraud: Social capital as an exploitable resource.'' Working paper, Darla Moore School of Business, University of South Carolina. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2562539.
Zak, P. J., and S. Knack
   2001 ''Trust and growth.'' Economic Journal, 111 (470): 295–321.

Author's Biography

Christopher B. Yenkey is an assistant professor of international business at the University of South Carolina Darla Moore School of Business, 1014 Greene St., Columbia, SC 29208 (e-mail: cyenkey@moore.sc.edu). His research combines theories of intergroup trust and organizational misconduct into the study of market development. He received his Ph.D. in sociology from Cornell University.