INTRODUCTION

Well-known scandals of one of the major leading accounting firms in the United States Arthur Andersen coupled with alleged unethical acts committed by Enron, Adelphia Communications, Dynegy, WorldCom, and Tyco have aroused the awareness of the public and stakeholders as to the moral decline and unethical posture of public accountants unveiled a decline in moral reasoning and ethical standards of public accountants (Dellaportas, 2006; Esmond-Kiger, 2004). The consequence of unethical conduct among public accountants has necessitated a variety in the manner of responsibility for ameliorating the quality of teaching in the accounting curriculum (Desplaces, Melchar, Beauvais, and Bosco, 2007).

An investigation on this subject brought out that little research has been taken on this topic and none at all on the ethical perceptions of accounting students concerning the new mandated changes in the accounting curriculum of the American Institute of Certified Public Accountants (AICPA) (Taylor and Rudnick, 2005; Ritter, 2006).

Revisions in the accounting curriculum mandated by the (AICPA) added the 150 credit rule which has been adopted by 43 states in America (Taylor and Rudnick, 2005). The 150 hour rule requires students to complete 150 credit hours in order to sit for the Certified Public Accountant (CPA) examination. This formula has brought up concerns regarding the effectiveness and need of the curriculum change by the AICPA (Bierstaker, Howe, and Seol, 2005). The AICPA’s overall goal was to ameliorate the quality of employment executed by public accountants since the job environment is frequently shifting and the need for ethical accounting, auditing, and assurance services in financial reporting are performed. Likewise, the decline in ethical behavior of some key auditors and executives of public corporation’s financial reporting led Congress to extend the 2002 Sarbanes-Oxley Act. Significant to the establishment of Sarbanes-Oxley Act was founding of the Public Company Accounting Oversight Board (PCAOB) to protect investors and restore the public confidence in the CPA. The PCAOB assigned auditors to combat unethical behaviors of corporate agencies that commit fraud (Coates, 2007).
In sight of the modifications by both Congress and the AICPA, in that location is growing concern to understand the perceptual experiences of accounting students regarding the requirement imposed by AICPA (Reckers, 2006). The aim of this research, therefore, is to study the perceptual experience of ethical reasoning among accounting students in the 150-credit program compared to the past 120-125 semester hours. This research will utilize the stages of the theory of cognitive, moral reasoning and moral development by Kohlberg (1969) as a basis for this inquiry. The researcher will draw each point and demonstrate its relationship to students' development and moral reasoning. Based on Kohlberg's (1976) hypothesis of cognitive, moral reasoning and moral development the writer researches the current accounting curriculum in post-secondary institutions and their influence on moral reasoning.

Ethical lapses among public accountants have necessitated a rewrite of the accounting curriculum (Earley and Kelly, 2004). Interestingly, scholars who are enrolled as accounting majors are faced with new challenges within the profession as a termination of the debacles of large corporations (Puxty, Sikka, and Willmott, 1994). The challenges are in ethics, educational requirements, compliance with the 2002 Sarbanes-Oxley Act, and professional responsibility to the profession of accountancy (Malone, 2006). According to Koestenbaum, Keys, and Weirich (2005), "business leaders are products of business schools which often teach that money always comes before ethics." (P. 13) Studies have proven that the labor and capital markets today for accounting students who aspire to become CPA's places more requirements on the profession as a result of unethical behavior by public corporations (Harrington and Moussalli, 2005).

In addition, Koestenbaum, et al (2005), report that "current lack of trust in financial reporting has been a contributing element to the recent slowdown in U.S. capital markets" (p. 13). Therefore, recent government intervention and regulation have led to the creation and legislation of the 2002 Sarbanes-Oxley Act to direct the critical ramifications of unethical conduct in financial reporting by corporations and independent accountants (Koestenbaum, et al, 2005; Cunningham, 2006). The Act enables the Securities and Exchange Commission (SEC) to enforce new rulings for publicly held corporations that will comply with the 2002 Sarbanes-Oxley Act. The Act includes 11 titles that represent new requirements for how publicly held
corporations report financial statements. The first title of the 2002 Sarbanes-Oxley Act was the formation of the PCAOB.

The charge of the PCAOB is to oversee that CPA is engaged in the auditing of financial accounts of public companies to ensure against unethical behavior in misrepresenting financial information (Whitley, 2006; Coates, 2007). The misrepresentation of the financial reports of the past unethical misconducts of several CPA’s produced a lack of confidence in the CPA by the public, investors, and the economy as a whole (Rau and Weber, 2004). Thus, the delegation of the PCAOB is to reestablish public confidence in the CPA (Carmichael, 2004). While research on evaluating ethical perceptions of individuals has been conveyed in the past (Kohlberg, 1967; Rest, 1970; Victor and Cullen, 1989) there has been little research on the perceptual experiences of ethics among accounting students who filled out the 150 credit rule whether pursuing a master’s degree or an extra 30 credits. Thus, there is a raising concern as to whether the mandated change by the AICPA in the accounting curriculum has influenced the ethical perceptions of accounting majors.

The topic of ethics is at the very core of all clubs. Every company, such as a nation and sub-societies such as a family, a social group and a business organization must work according to some ethical guidelines. Without such guidelines, the society would sink into anarchy and eventual crash. The term “ethics” is delineated as the study of moral precepts and values that govern the actions and decision of an individual or group. Where such decisions are not morally acceptable it is stated to be “unethical” to the larger company. Ethics involves learning what is right and wrong, and then doing the right thing. Moral philosophy is also identified as the process by which individuals, social groups and societies evaluate their activities from the view of moral precepts and values (Blackburn, Klayman and Malin, 1985).¹

Wheeler (1959) defines ethics as “that branch of philosophy which is the systematic study of reflective choice, of the standard of good and wrong by which it is to be conducted, and of the goods toward which it may ultimately be addressed. From this definition three key factors can be placed. First, ethics involves a question requiring reflective choice (decision problems). Second, ethics involves guides of right and wrong (moral rules). Third, moral philosophy is concerned with the

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consequences (goods) of decisions. A problem situation exists when a person must reach a choice among alternative actions, and the correct choice is not perfectly clear. An ethical problem situation may be delineated as one in which the choice of alternative actions affects the welfare of some other person (Robertson and Lawyers 2002:462). The term “ethical dilemma” is sometimes employed by some writers in place of “an ethical problem situation”. 2

Building and sustaining a reputation for ethical behavior is a valuable corporate asset in the business community. The business community is anticipated to establish a positive contribution to the general moral climate of the guild. The controllers, auditors, directors and company secretaries are major participants in the business community, which is a component of the societal organization. For instance, executive and professional misconduct have been jeopardizing the existence of some quoted companies and the capital markets and Overseas for a good amount of time. More importantly, public outcry against unethical practices or unethical business activities threatens the free enterprise system itself. 3

Greed and fear – the two most potent military units in advanced capitalism (Dan Keele, 2009) have pervaded the social arrangement, particularly the financial sub-system in most economies of the globe. 4

Greed on the role of financial market operators, corporate executives and their companions, and concern on the voice of investors (existing and potential investors), even professionals in practice, are distinctive examples. When the public loses trust in the power of the marketplace to prevent corporate misbehavior, it often requires increased government regulation. For instance, frequent instances of wrongful conduct by corporate executives have led to the passage of several Acts. Such Acts include the Companies and Allied Matters Act, 2004 Cap C20, LFN, the Economic and Financial Crimes Commission (EFCC) Act, 2004, the Investment and Securities Act (ISA) 2007, the Independent Corrupt Practices and other Related Offenses (ICPC) Act 2003, Corporations and other Financial Institutions Act 1991, Money Laundering Act, and many others. The Sarbanes Oxley Act of 2002 is another powerful Act that

regulates corporate behavior in the United States of America (U.S.A). The aim of this study, therefore, is to identify the types and causes of unethical practices by accountants, auditors, directors and company secretaries in business organization, and suggest possible remedy for them.

Frauds, a worldwide phenomenon that affects all continents and all sectors of the economic system. Fraud encompasses a full-scope of illicit practices and illegal acts involving intentional deception or misrepresentation. Granting to the Association of Certified Fraud Examiners (ACFE, 2010), fraud is “a deception or misrepresentation that an individual or entity makes knowing that the misrepresentation could result in some unauthorized benefit to the person or to the entity or some other party.” In other language, mistakes are not fake. Indeed, a fraud, groups of unscrupulous individuals manipulate, or influence the bodily functions of a target business with the purpose of taking in money, or receiving goods through illegal or unjust way. Fraud cheats the target system of its legitimate income and results in a deprivation of goods, money, and even goodwill and reputation. Fraud often employs illegal and immoral, or unfair means.

Magnitude of Frauds

Institutions of all types and sizes are subject to fraud. On a number of occasions over the past few decades, major public companies have experienced financial reporting fraud, resulting in agitation in the U.S. capital markets, a loss of shareholder value, and, in some cases, the failure of the fellowship itself. Although it is broadly assumed that the Sarbanes-Oxley Act has improved corporate governance and decreased the incidence of fraud, recent surveys suggest that investors and management continue to have fears about financial statement fraud. For example:

- The Association of Certified Fraud Examiners’ (ACFE) “2010 Report to the Nations on Occupational Fraud and Abuse” found that financial statement fraud, while standing for less than five percent of the cases of fraud its report were priciest, with a median loss of $1.7 million per incident. Survey participants estimated that the typical organization loses 5% of its revenues to fraud each year. Applied to the 2011 Gross World Product, this figure translates to a potential projected annual fraud loss of more than $3.5 trillion. The median loss caused by the occupational fraud cases in our study was $140,000. More than
one-twenty percent of these cases caused losses of at least $1 million. The frauds reported to us lived a median of 18 months before being discovered.

- "Fraudulent Financial Reporting: 1998–2007," from the Committee of Sponsoring Organizations of the Treadway Commission (the 2010 COSO Fraud Report), analyzed 347 frauds investigated by the U.S. Securities and Exchange Commission (SEC) from 1998 to 2007 and found that the average dollar amount of each instance of fraud had increased three times from the stratum in a similar 1999 study, from a median of $4.1 million in the 1999 study to $12 million. In summation, the median size of the company involved in fraudulent financial reporting increased approximately six-fold, from $16 million to $93 million in total assets and from $13 million to $72 million in revenues.

- A “2009 KPMG Survey” of 204 executives of U.S. companies with yearly revenues of $250 million or more found that 65 percent of the respondents considered fraud to be a substantial risk to their organizations in the succeeding year, and more than one-third of those identified financial reporting frauds as one of the highest risks.

- Fifty-six percent of the approximately 2,100 business professionals surveyed during a “Deloitte Forensic Center” webcast about reducing fraud risk predicted that more financial statement fraud would be revealed in 2010 and 2011 as compared to the previous three years. Nearly half of those surveyed (46 percent) pointed to the recession as the grounds for this growth.

- Agreeing to “Annual Fraud Indicator 2012” led by the National Fraud Authority (U.K.), “The scale of fraud losses in 2012, against all victims in the UK, is in the neighborhood of £73 billion per annum. In 2006, 2010 and 2011, it was £13, 30 and 38 billion, respectively. The 2012 estimate is significantly larger than the previous figures because it includes raw and improved estimates in a number of countries, in particular against the secret sector. Fraud harms all areas of the UK economy.”

**Who Commits Frauds?**

As Reuber and Fischer (2010) states: “Everyday, there are revelations of organizations behaving in discreditable ways.” Observers of organizations may assume that houses will tolerate a loss of reputation if they are seen engaging in
activities that violate social, moral, or legal codes, such as flaunting accounting regulations, supporting fraudulent practices, damaging the environment or deploying discriminatory hiring practices. In that respect are three groups of business people who commit financial statement frauds. They range from senior management (CEO and CFO); mid- and lower-tier management and organizational criminals (Crumbley, 2003). CEOs and CFOs commit accounting frauds to conceal true business frauds, to preserve personal status and control and to maintain personal income and riches. Mid and lower-level employees falsify financial statements connected to their area of responsibility (subsidiary, division or other unit) to conceal poor frauds and/or to earn frauds-based bonuses. Organized criminals falsify financial statements to obtain loans or to inflate a stock they plan to sell in a “pump-and-dump” system. Methods of financial statement schemes range from false or fabricated revenues; altering the times at which revenues are recognized; improper asset valuations and reporting; concealing liabilities and expenses; and improper financial statement disclosures (E&Y, 2009). Sometimes these natural processes result in harm to an organization’s reputation.

**Consequences of Fraudulent Financial Reporting**

Fraudulent financial reporting can cause serious consequences for the organization and its stakeholders, as considerably as for public confidence in the capital markets. Periodic high-profile cases of fraudulent financial reporting also raise fears about the credibility of the U.S. financial reporting process and call into question the roles of management, auditors, regulators, and analysts, among others (Telberg, 2003).

The wave of financial scandals at the tour of the 21st century elevated the awareness of fraud and the auditor’s responsibilities for finding it. The frequency of financial statement fraud has not appeared to decline since the enactment of the Sarbanes-Oxley Act in July 2002 (Hogan et al., 2008). For example, The 4th Biennial Global Economic Crime Survey (2007) of more than 3,000 corporate officers in 34 states conducted by PricewaterhouseCoopers (PwC) reveals that “in the post-Sarbanes-Oxley era, more financial statement frauds have been let out and reported, as evidenced by a 140% increment in the discovered number of financial misrepresentations (from 10% of companies reporting financial misrepresentation in the 2003 survey to 24% in the 2005 study). The growth in fraud discoveries may be
ascribable to an increment in the amount of fraud being committed and/or also due to more stringent controls and hazard management systems being implemented,” (PricewaterhouseCoopers 2005). The high incidence of fraud is a grave business for investors as fraudulent financial reports can cause a strong negative impact on a company’s existence as well as market value. For instance, the lost market capitalization of 30 high-profile financial scandals caused by fraud from 1997 to 2004 is more than $900 billion, which represents a loss of 77% of the market value of these firms, while recognizing that the initial market values were likely inflated as a result of the financial statement fraud.

No doubt, recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given boost to two disparate yet logical outcomes. Showtime, ‘forensic’ accounting skills have become crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed ‘corporate governance’ (henceforth, CG) scenario. Consequently, to a greater extent and more company officers and managers are under ethical and legal scrutiny. In fact, both these movements have “the usual goal of addressing the investors’ concerns about the transparent financial accounting system.” The loser of the corporate communication structure has caused the financial community realize that there is a keen demand for ‘skilled’ professionals that can identify, disclose, and prevent ‘structural’ weaknesses in three central areas: poor CG, flawed internal controls, and fraudulent financial statements. “Forensic accounting skills are becoming increasingly relied upon within a corporate reporting system that emphasizes its accountability and responsibility to stakeholders” (Bhasin, 2008). Sticking with the legislative and regulatory reforms of corporate America, resulting from the Sarbanes-Oxley Act of 2002, reforms were also initiated worldwide. Mostly in response to the Enron and WorldCom scandals, Congress passed the Sarbanes-Oxley Act (SOX) in July 2002. SOX, in part, sought to provide whistle-blowers greater legal security. As Bowen et al. (2010) states, “Notable anecdotal evidence suggests that whistle-blowers can make a dispute. For instance, two whistle-blowers, Cynthia Cooper and Sherron Watkins, took on important roles in exposing accounting frauds at WorldCom and Enron, respectively, and were identified as the 2002 persons of the year by Time magazine.”
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Caved in the current state of the economic system and recent corporate scandals, fraud is still a top concern for corporate administrators. In fact, the sweeping regulations of Sarbanes-Oxley, designed to help prevent and detect corporate fraud, have exposed fraudulent practices that previously may have passed undetected.

Additionally, more corporate executives are paying fines and serving prison time than ever earlier. No industry is resistant to fraudulent situations and the negative publicity that swirls about them. The implications for management are clear: every organization is vulnerable to fraud, and handlers must recognize how to find it, or at least, when to distrust it.

Brief Review of Philosophical Principles of Ethics

According to Titus and Keeton (1996:131), “each individual capable of arriving at moral decisions is responsible for making his own ends, and the ultimate locus of moral responsibility is in the individual. Thus, the use of ethical principles is not to furnish a simple and indisputable rule, only to provide some guides for ones’ individual decisions and actions. In sum, an understanding of some of the general teachings of ethics can contribute to background for a detailed consideration of the behavior directed by the code of professional conduct and other ethical rules usually issued by various professional bodies (such as ICAN, ANAN, CIBN, Chartered Institute of Stockbrokers) and government regulatory authorities such as SEC, CBN, CAC, and hence on. Their application through codes of professional conduct is a challenge to professionals in practice session.5

In that respect there are three schools of thought as distinguished by philosophers that an individual or group can use in reasoning through an ethical decision problem. These are the imperative, utilitarianism, and general principles of moral philosophy (Robertson and Louwers, 2002: 464-467).6

The Imperative Principle

This principle directs a decision maker to do according to the requirements of an ethical rule. Strict versions of imperative ethics maintain that a conclusion should be reached at without trying to predict whether a natural process will probably bring

out the greatest balance of good over evil. Moral philosophy in the imperative sense is a function of moral rules and principles and do not involve a position-specific calculation of consequences. The philosopher Immanuel Kant (1724-1804) was perhaps the foremost exponent of the imperative school. Kant was unwilling to rely exclusively on the decision makers' inclinations and values for decisions in diverse weather. He strongly preferred rules without exceptions to the varied and frequently inconsistent choice of individuals (Robertson and Louwers, 2002). He applied that reason and the strict duty to be consistent governed the formulation of his first law of conduct. One of Kant's rules is 'live up to all your professional obligations not to knowingly misrepresent facts'. Another is the duty to 'Be loyal to your employer'. Nevertheless, conflicts of rules and duties may make difficult problems because adherence to one means breaking the other.7

The Principle of Utilitarianism

The rule holds that the ultimate touchstone of an ethical conclusion is the balance of good over evil consequences produced by an action. The emphasis on utilitarianism is on the consequences of natural process, rather than on observing some rules. The criterion of producing the greater good has produced an explicit part of the decision process. Utilitarianism was propounded by two philosophers Jeremy Bentham (1748-1832) and John. S.S. Factoy (1806-1873) where individual happiness is balanced against the demands of society (Elliot and Elliot, 2002:772). The principle has two main parts – the act utilitarianism and the rule-utilitarianism.

In act-utilitarianism, the center of attention is the individual human activity as it is struck by the specific circumstances of a post. An act-utilitarianism ethical problem may be entrapped in this way: "what effect will my doing this act in this situation have on the general equilibrium of right over evil?" This theory admits general guides such as "Telling the true statement is probably always for greater good".

Rule-utilitarianism, on the other hand, accentuates the centrality of rules for ethical behavior while still maintaining the criterion of the greatest general good. This

form of utilitarianism means that decision makers must first learn the patterns that will push the greatest general good for the greatest number of masses. The initial question is not which action has the greatest utility, but which rule. For example, the statement of the rule-utilitarian's problem may be expressed as: "What would take place if everybody played this way?" In this conformation, the question becomes 'generalization'.

The Principles of Generalization

The generalization principle may be considered a wise combination of the imperative and utilitarian principles, for all practical intents. Put succinctly, the question is often stated as: "What would happen if everyone acted in that certain way?" If the answer to the question is that the consequences would be undesirable, then our conclusion, according to the generalization test, is that the way of acting is unethical and ought not to be done. The key ideas in the generalization test are similar persons and similar circumstances. These features provide the needed flexibility to consider the many variations that arise in real problem situations. They also demand considerable judgment in determining whether persons and circumstances are genuinely different or are just arbitrarily rationalized as different, so that a preconceived preference can be 'explained' as right (Robertson and Louwers, 2002:467). For instance, a professional accountant and an employee of a particular company was asked by his director to enhance the financial statements by misrepresenting some figures and he saw the enhancement as a lie. His generalization question may be something like this: "What if all accountants fudged financial statements and fooled loan or lending officers when their companies needed to obtain loans?" Most people will see an easy answer — the result would be undesirable (because it might succeed often and cause considerable losses to corporations along with other undesirable personal consequences for the actors, in addition to the problem of having broken a rule that requires truth-telling). Some other sort of inductive reasoning test is a situation where an external auditor's desire for serving on the board of directors of the audit client and the need for independence. The firm's audit independence, no doubt, would be impaired.

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Unethical Practices by Accountants

Ethics is an important aspect of the accountant in business enterprise’s work and profession. Professional ethics in this context can be summed up as the commitment of the management accountant to provide a useful service for management. This commitment means that the management accountant has the competence, integrity, confidentiality and objectivity to serve management effectively (Blocher et al, 2005: 23-25).

The standard of competence for example, requires the accountant to develop and maintain the skills necessary for his or her area of practice and to continually reassess the adequacy of those skills as the firm grows and become more complex. The code or standard of confidentiality requires adherence to the firm’s policies regarding communication of data to protect confidential information. Integrity refers to behaving in a professional manner such as refraining from activities that would discredit the firm or profession (e.g. unfair hiring practices), and to avoiding conflicts of interest (e.g. not accepting a gift from a supplier or customer). Objectivity refers to the need to maintain impartial judgment (e.g. not developing analysis to support a decision that the accountant knows is not correct.9

The type of unethical practices by accountants in business includes the followings:

i. Requests by employers to record purchases or expenditure or sales that never occurred;

ii. Requests to produce figures to mislead shareholders, e.g. participation in the production of false and misleading financial statements;

iii. Request by employers to manipulate tax returns;

iv. Request to conceal information;

v. Requests to manipulate overhead absorption rates to extort more income from customers; and to manipulate cost allocation;

vi. Requests to authorize and conceal bribes to buyers and agents, a common request in some exporting business;

vii. Requests to produce misleading projected figures to obtain additional finance or loan;

viii. Requests to conceal improper expense claims put in by top management or senior managers;

ix. Requests to over-or under-value assets;

x. Request to misreport figures in respect of government grants;

xi. Requests for information, which could lead to charges of ‘insider dealing’ in shares or stock.

xii. Requests to redefine bad debts as ‘good’ or vice versa;

xiii. Requests for padding the budget by knowingly include a higher amount of expenditures in the budget than they actually believe is needed;

xiv. Wasteful spending to exhaust remaining budgeted amounts before the end of the period.

xv. Requests to prepare unreasonable executive compensation plan. The tax authority can deny a firm’s right to deduct compensation that it determines to be unreasonable.

The cause of unethical practices by accountants in business can be traced to the problem of dual ethical structures, namely, as professionals and employees. The remedy for this conflict causes many problems for the accountant who is left with only three possible solutions, namely:

i. Take some action by either informing a superior (letting them take some action) or by whistle-blowing to an outside agency such as professional body, EFCC, the police, the media or whatever. This may cause the accountant personal problems and is difficult if the superior is the ‘guilty party’.

ii. Resign on principle and leave the organization with personal and professional ethics intact but with a possibly damaged career.

iii. Ignore the action and hope someone else notices the unethical behavior and takes the appropriate action.
Unethical Practices by Auditors

Auditor, in this context means an individual, a partnership firm, or an organization carrying out an audit of an enterprise or an undertaking. Such persons are not usually employed by the accounting entity or by its managers and are, as far as possible, independent of the persons who manage the entity, hence they are often referred to as ‘external auditors’; or ‘accountants in practice’.

The Companies and Allied Matters Act (CAMA) 2004, Cap C20, LFN requires every limited liability companies to appoint an auditor or auditors who must be a Chartered Accountant or a firm of Chartered Accountants at annual general meeting (AGM), to audit their financial statements (section 357, CAMA). The external auditor or accountant in practice has a considerable body of ethical support to work from particularly if he is a member of one of the various Chartered Accountancy bodies. These bodies (e.g. ICAN and ANAN) publish guidelines covering key areas of accounting work and behavior such as their relationship with the client; the type of work they can do for the client; the way to safeguard independence; the standard of behavior expected of accountants; the manner of dealing with conflicts of interest; the way they will behave in given situations such as take-over, insolvencies and so on, and the nature and type of advice they can give clients.

The causes of these unethical practices are (i) greed on the part of the auditor and (ii) the auditor’s quest to retain his appointment or tenure with the client; and (iii) outcome of conflicts of interest. To remedy these ethical problems, accountants in public practice (auditors) must be careful in all areas of practice. They must not lose sight of the non-accountants’ perspective. No matter how complex or technical a decision may be, a simplified view of it always tends to cut away the details of special technical issues to get directly to the heart of the matter (Robertson and Louwers, 2002:490)

A sense of professionalism coupled with sensitivity to the effect of decisions on other people are invaluable in the practice of accounting and auditing. Auditors must also adhere to the fundamental of professional conduct such as integrity, objectivity and independence, due care and public interest.
Unethical Practices by Directors

Directors are defined under section 244(1), CAMA 2004 as ‘persons duly appointed by a limited liability company to direct and manage the business of the company. Every registered company must have at least two directors for private limited, and at least seven for public limited company (plc). Every director of a company shall exercise the powers and discharge the duties of his office honestly, in good faith and in the best interest of the company, and shall exercise that degree of care, diligence and skill (section 282, CAMA 2004). The imposition of fiduciary duty on directors by the Act, is meant to prevent abuse of power and conflict of interest on the part of directors in general areas of corporate governance (e.g. in the issue, transfer and registration of shares; in their contracts either with the company or on its behalf with third parties, their dealings with physical assets or properties of the company and corporate opportunity and information in whatever form (Oshio, 1995:178).

Unethical practices by directors in companies include: breach of agency relationship which put directors in fiduciary status; failure to disclose their personal interest in the company, e.g. shareholdings and loans or other form of contract arrangement; making secret profits from the company; failure to disclose spouse/children’s interest in the company; claiming unreasonable amount as directors’ fees; claiming outrageous/ unapproved expenses from the company; requesting accountants/auditors to misrepresent figures in financial statements with intent to cheat investors or shareholders and the government; age misrepresentation or failure to disclose age; failure to disclose qualifications; sole directorship; and insider-dealings-by taking advantages of a perceive downward movement in share prices and selling off his holdings.

These unethical practices by directors are caused by greed and quest to accumulate wealth to the detriment of the shareholders and the society at large. The possible outcome is what is known as agency cost. Agency cost is the costs of the conflict of interest between shareholders and management (directors). Such a conflict is called an agency problem (Ross, Westerfield and Jordan, 2000:12).

To remedy these ethical problems the Corporate Affairs Commission (CAC), the Securities and Exchange Commission (SEC), the Central Corporation (CBN) and
other relevant federal regulatory agencies should ensure the enforcement of their various rules, ethical codes and codes of corporate governance as applicable to Directors. Upward review of amount of fines imposed by CAMA 2004 for breach of fiduciary duty by directors is also desirable.

Unethical Practices by Company Secretaries

The CAMA 2004 requires every company to have a secretary. The appointment is usually made by the directors. The company secretary’s duties are mainly administrative including:

a. Attending the meetings of the company, the board of directors and its committees, rendering all necessary secretarial services in respect of the meeting and advising on compliance by the meetings with the applicable rules and regulations;

b. Maintaining the registers and other records required to be maintained by company under the CAMA;

c. Rendering proper returns and giving notification to the CAC;

The secretary shall not without the authority of the board of directors exercise any powers vested in the directors. The common types of unethical practices by Company Secretaries include: making secret profits, where he is acting as an agent of the company; letting his duties conflict with his or her personal interests; using confidential information he obtained from the company for his own benefit; releasing confidential information about the company to the press or any other persons without the board’s permission; lobbying for the appointment of his spouse or close relative for appointment as a director of the company; charging the company a fee that is considered unreasonable; engaging in ‘insider-dealings; and unnecessarily delaying the circulation of notices of meetings to members of the company;

The causes of, and remedy for unethical practices by company secretaries are similar to those of the directors. In addition, company secretaries like the accountants in practice, have a considerable body of ethical support to work from, particularly if they are members of the Institute of Chartered Secretaries and Administrators (ICSA).

In the mid-1990s, when Chief Executive Officer (CEO) Bernard Ebbers used rigorous cost control and an aggressive acquisition strategy to turn his small long
distance telephone company into a global telecommunications giant named WorldCom, Wall Street quickly fell in love (Jeter, 2003). Wall Street analysts were particularly enamored of WorldCom Chief Financial Officer (CFO) Scott Sullivan, the man who engineered the WorldCom–MCI takeover and who was widely viewed as “the key to WorldCom Inc.’s financial credibility” (Young and Perez, 2002, p. B1). In 2002, four years after brokering the historic WorldCom/MCI deal, Sullivan was fired from WorldCom and named by prosecutors as the chief architect in what was ultimately revealed to be a $11 billion accounting fraud (the world’s largest), leading to the biggest Chapter 11 corporation corrupts filing in U.S. history (Young, 2005, p. C3).

Post-mortem analyses of the recent corporate ethical scandals have offered a number of theories about why these once highly regarded organizations went bad. Much of the research has pointed to the effect of an organization’s culture in shaping and supporting the shared “norms, beliefs, attitudes, and values” that characterize the style or way of doing things in the organization (Luthans and Hodgetts, 1992, p. 205). An organization’s culture, in turn, is shaped by the company’s founder and maintained by the executives and managers who run the company. Organizational cultures are strengthened and preserved by the tendency of the management to hire people with similar values and beliefs (Hill and Jones, 1995). Consequently, the ethical failings of top leadership can often inadvertently be supported by, for example, an organizational culture that advocates winning at any cost (Carson, 2003; Jenkins, 2002; Jennings, 2004; Prentice, 2003; Seeger and Ullmer, 2003).

In focusing on leaders, researchers have considered not only the leaders’ personal ethical failings, but also and perhaps most critically – the impact of the leaders’ behavior and leadership style on the organization. In particular, a number of analysts have suggested that the CEOs and other top leaders involved in corporate scandals may have created or fostered the development of an organizational culture and structure that was antithetical to ethical business behavior (Callahan, 2004; Carson, 2003; Jennings, 2004; Raghavan, Kranhold, and Barrionuevo, 2002; Sims and Brinkmann, 2003; Stanford, 2004; Stephenson, 2004).

Bologna and Lindquist (1996) in their study cited the ‘environmental’ factors that enhance the probability of embezzlement of funds. However, Ziegenfuss (1996) performed a study to determine the amount and type of fraud occurring in ‘state and
local’ governments. His study revealed that the most frequently occurring types of fraud are misappropriation of assets, theft, false representation; and false invoice. On the other hand, Haugen and Selin (1999) in their study discussed the value of ‘internal’ controls, which depends largely on management’s integrity. Adding to the situation of poor internal controls, the readily available computer technology also assisted in the crime, and the opportunity to commit fraud becomes a reality. Sharma and Brahma (2000) have emphasized on corporate bodies’ responsibility on frauds; corporation frauds could crop-up in all spheres of corporation’s dealing. Major cause for perpetration of fraud is laxity in observance in laid-down system and procedures by supervising staff. Harris and William (2004), however, examined the reasons for ‘loan’ frauds in corporations and emphasized on due diligence program. They indicated that lack of an effective internal audit staff at the company, frequent turnover of management or directors, appointment of unqualified persons in key audit or finance posts, customer’s reluctance to provide requested information or financial statements and fictitious or conflicting data provided by the customers are the main reasons for loan frauds.

Beirstaker, Brody, Pacini (2005) in their study proposed numerous fraud protection and detection techniques. Rezaee (2005), however, finds five interactive factors that explain several high-profile ‘financial statement’ frauds. These factors are: cooks, recipes, incentives, monitoring and end results (CRIME).

Moreover, Willison (2006) examined the causes that led to the breakdown of ‘Barring’ Corporation. The collapse resulted due to the failures in management, financial and operational controls of Baring Corporations. Choo and Tan (2007) explained corporate fraud by relating the ‘fraud-triangle’ to the “broken trust theory” and to an “American Dream” theory, which originates from the sociological literature, while Schrand and Zechman (2007) relate executive over-confidence to the commitment of fraud. In fact, research results by Crutchley et al., (2007) have shown that “corporate environment most likely to lead to an accounting scandal manifests significant growth and accounting practices that are already pushing the envelope of ‘earnings smoothing’.

Firms operating in this environment seem more likely to tip over the edge into fraud if there are fewer outsiders on the audit committee and outside directors appear overcommitted.” Moreover, Bhasin (2008) examined the reasons for ‘check’ frauds,
the magnitude of frauds in Indian corporations, and the manner, in which the expertise of internal auditors can be integrated, in order to detect and prevent frauds in corporations. In addition to considering the common types of fraud signals, auditors can take several ‘proactive’ steps to combat frauds.

Chen (2010) in his study examined the proposition that “a major cause of the leading financial accounting scandals that received much publicity around the world was ‘unethical’ leadership in the companies and compares the role of unethical leaders in a variety of scenarios. Through the use of computer simulation models, it shows how a combination of CEO’s narcissism, financial incentive, shareholders’ expectations and subordinate silence as well as CEO’s dishonesty can do much to explain some of the findings highlighted in recent high-profile financial accounting scandals.” According to a research study performed by Cecchini et al., (2010), the authors provided a methodology for detecting ‘management’ fraud using basic financial data based on ‘support vector machines’. They concluded that “Support vector machines using the financial kernel correctly labeled 80% of the fraudulent cases and 90.6% of the non-fraudulent cases on a holdout set. The results also show that the methodology has predictive value because, using only historical data, it was able to distinguish fraudulent from non-fraudulent companies in subsequent years.”

An examination of prior literature reveals that the likelihood of committing fraud has typically been investigated using financial and/or governance variables. The moral, ethical, psychological and sociological aspects of fraud have also been covered by the literature. Moreover, some studies also suggested that psychological and moral components are important for gaining an understanding of what causes unethical behavior to occur that could eventually lead to fraud. A large majority of these studies were performed in developed, Western countries. However, the manager’s behavior in fraud commitment has been relatively unexplored so far. Accordingly, the overarching objective of this paper is to examine managers’ unethical behaviors in documented corporate fraud cases on the basis of press articles, which constitute an ex-post evaluation of alleged or acknowledged fraud cases. Unfortunately, no study has been conducted to examine behavioral aspects of manager’s in the perpetuation of corporate frauds in the context of a developing economy, like India. Hence, the present study seeks to fill this gap and contributes to the literature.
Review of Literature

Most research on the relation between accounting fraud and the surroundings in which it occurs is theoretical. Though each of this model's assumptions and mechanisms are different, they all find that more managers start to commit accounting fraud in periods of strong aggregate frauds.

In late years, corruption and other kinds of unethical conduct in organizations have got substantial attention in the management literature (Bandura, Barbaranaelli, Caprara, and Pastorelli, 1996), investment circles (Pujas, 2003), and regulatory communities (Farber, 2005). Scandals at Enron, WorldCom, Xerox, Quest, Tyco, HealthSouth, and other companies have created a loss of trust in the unity of the American business (Carson, 2003) and even caused the accounting profession in the United States to reevaluate and reestablish basic accounting procedures (Apostolon and Crumbley, 2005). In reaction to the Enron scandal, the American Institute of Certified Public Accountants issued the next instruction:

"Our profession enjoys a sacred public trust and for more than one hundred years has served the public involvement. However, in a short period of time, the stain from Enron's collapse has eroded our most significant asset: Public Confidence." (Castellano and Melancon, 2002, p. 1)

Financial scandals are not confined to the United States only. Governing bodies in Europe, Asia and other regions of the cosmos have been affected in similar positions. Notable non-U. S. Cases include: Parmalat (Italy), Harris Scarfe and HIH (Australia), SK Global (Korea), YGX (China), Livedoor Co. (Japan), Royal Ahold (Netherlands), and Vivendi (France). The business community worldwide has experienced a syndrome of ethical breakdowns, including extremely costly financial statement frauds.

Financial statement fraud has been defined as an intentional misrepresentation of an organization's financial statements (National Commission on Fraudulent Financial Reporting, 1987). An organization's financial statements are the terminal product of the accounting cycle and provide a representation of a company's financial position and periodic execution. The accounting cycle includes the procedures for analyzing, recording, sorting, summarizing, and describing the transactions of a
concern or establishment. Financial statements are a lawful function of sound management practice in a broad diversity of domains (Power, 2003).

Financial statements are prepared by, and are the responsibility of, company management (Financial Accounting Standards Board, 1979). Accounting is the process through which financial statements are made. It is the epidemic consonance and rationale of economic science between government and the public via the style of official reporting with auditors and accountants, thereby leading to the release of government accountability and the holding of a consensus regarding possible future forms of economic management (Suzuki, 2003). Financial statements include presentations of financial data that are developed in accord with some comprehensive basic form of accounting. Financial reporting, which arrives in the form of financial statements, provides data for the purposes of investment and credit decisions, assessment of cash flow prospects, and the evaluation of enterprise resources, claims to those resources, and changes in them (Financial Accounting Standards Board, 1979).

The Enron Corporation was founded in 1985. The principal activity of this pot was the distribution of natural gas by pipeline in the United States (Helay and Palepu, 2003). Between 1987 and 1990 Enron was the leader in this area. On December 31, 2000, the market capitalization of Enron was about 60 billion bucks. Arthur Houston Office was the auditor of Enron. This audit firm was one of the two largest Americans financial services. The income of this auditor group was 9.3 billion dollars, 46% coming from the American market. Furthermore, this group had 81 offices in the United States and 85,000 employees throughout the world (Barton, 2005) and 28,000 in the United States.

At the end of 2001, when the failure of Enron was announced and Arthur Andersen L.L.P destroyed the great bit of Enron documents and computer files. The Federal Energy Regulatory Commission began investigating if Enron and other energy trading had manipulated the California electricity market between 2000 and 2001. Three major reactions were observed. The first one concerns the response of the marketplace. According to many researchers, Enron’s failure and the role of Andersen affected financial markets and the confidence of investors. Chaney and Phillipich (2002) looked into the effect of Enron’s audit failure on the reputation of Arthur Andersen’s clients through the negative effects on stock prices. They found that
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Andersen's clients suffered from a significant negative reaction during key disclosure concerning Enron and Andersen relation. Callen and Morel (2002) compared the daily stock returns of Andersen's clients on a control sample of other Big 5 auditors' clients between October 2001 and January 2002. They proved that in the month when the corporation corrupts of Enron was announced, Andersen's brand name was negatively affected. Krishnamurthy, Zhou, and Zhou (2002) establish that the market reacted more negatively than when the news about Andersen was announced. Moreover, they observe that the market reacted more negatively to Andersen's clients than to other Big 4 auditors' clients. Cahan, and Zhang (2006) analyzed the reaction of the share prices of Andersen's customers outside the United States (521 clients in 38 different states). They constitute that the share prices of Andersen's clients reacted negatively between December 12, 2001 and February 4, 2002.

The second reaction concerns the Big 4 brand names: the Big 4 group lost their report after the Enron scandal. These advanced studies concerning the market reaction singled out the deficiency of trust in the Big 4's audit services. This situation can decrease the function of the large audit firm in audit services. This due to the lack of investor trusting associates with big brand name after Enron collapse. The third reaction concerns the legal sector. On July 2002, the United States Congress took in the Sarbanes-Oxley Act. This law established new control procedures and created a new organism called Public Company Accounting Oversight Board (PCAOB). The same act was embraced in France in 2003. This security act established a new organism called "Haut Commissariat aux Comptes" which guarantees the auditor's independence.

An analysis of the results and behavior surrounding the Enron scandal forces the conclusion that Enron's vaunted code of ethics was observed, at least by executives, principally in the breach (Prentice, 2003). The RICE values, as Seeger (2003) notes, "appeared to operate largely as platitudes, discussed yet dismissed in favor of more pragmatic matters of profit" (p. 63). Enron offers a sound exemplification of "window dressing ethics, with singing instead of walking, ethics as rhetoric" (Sims and Brinkmann, 2003, p. 253). Enron's accounting problems and subsequent corporation corrupts did not emerge out of the blue, nor was there any single identifiable moment when Enron crossed the demarcation between what was ethically acceptable and what was not. Alternatively, the "Enron scandal grew out of a
steady accumulation of habits and values and actions that began years before and finally spiraled out of control” (McLean and Elkind, 2003, p. 132). Sims and Brinkmann (2003) likewise agree, writing, “It was the sum of incremental ethical transgressions that produced the business catastrophe” (p. 247).

A number of analysts suggested that Enron’s basic business model contributed to its ethical and financial crash. The company’s reliance on mark-to-market accounting may have fostered a basic disconnect with real profits and costs, while the focus on doing business through affiliated special purpose entities undoubtedly increased the reach and scope of battles of interest (Callahan, 2004; Jennings, 2004; McLean and Elkind, 2003; Prentice, 2003; Seeger, 2003). Enron’s leaders’ belief in the power of free markets and the need for complete deregulation also influenced the character of Enron’s business model and its ethical parameters. As Callahan (2004) observed, “Enron’s leaders believed they were reinventing the corporation by making a society that wouldn’t really cause anything – except profits, because it took advantage of the ebb and flow of fast-changing markets in which everything under the sun was bought and sold” (p. 127).

The magnitude of the effects of the Enron debacle is as spectacular as the orbit of the scandal. As a direct effect of the accounting fraud, over 20,000 Enron employees lost hundreds of millions of dollars in retirement and savings accounts (Behr, 2004b). During the Congressional hearings, many former Enron employees testified that they had retired with $700,000 to $2 million in Enron stock that had become worthless (Sridharan, Dickes, and Caines, 2002). While Enron executives frantically dumped their Enron stock as the price began to crumble, the legal age of Enron employees was prohibited from trading their stock (Sims and Brinkmann, 2003; Sridharan, Dickes, and Caines, 2002). The debacle puts thousands of employees (both at Enron and related companies such as Arthur Andersen) out of work. It is now recognized that the misconduct at Enron contributed materially to the California energy crisis. Seeger (2003) sums up some of the other costs and imports of the unethical conduct at Enron: The Enron case cost investors billions of dollars in equity, dealt a disastrous setback to the accounting giant Arthur Andersen, generated a dizzying array of suits, and prompted a serious rethinking of SEC rules. Enron and the distrust in corporate governance it generated also helped fuel a sharp downturn in major livestock markets (p. 65).
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The Enron case and the publicity surrounding it did much to undermine the public opinion of corporations in America. A Harris Interactive/Reputation Institute study of consumer attitudes towards U.S. corporations in the backwash of the corporate scandals found that among consumers, Enron ranked 60th out of 60 companies identified on measures of consumer trust, the same dead-last position it has taken since the survey started in 2002 (Alsop, 2004). Enron has become the quintessential symbol of unethical behavior. Former CEO Kenneth Lay, a mild mannered son of a Baptist minister with the physical appearance of Elmer Fudd, has become one of the most hated human beings in America (Alsop, 2004; Behr, 2004a, 2004b).

Beginning in the late 1990s, a wave of corporate frauds in the United States occurred with Enron’s failure perhaps being the symbolic case. Jeffords (1992) studied 910 cases of frauds submitted to the “Internal Auditor” during the nine-yr period from 1981 to 1989 to assess the specific risk factors mentioned in the Treadway Commission Report. He reasoned that “roughly 63 percent of the 910 fraud cases are classed under the internal control risks.” Calderon and Green (1994) made an analysis of 114 actual cases of corporate fraud published in the “Internal Auditor” during 1986 to 1990. They found that limited separation of duties, false documentation, and inadequate (or non-existent) control accounted for 60% of the fraud cases. Moreover, the study found that professional and managerial employees were involved in 45% of the instances. In addition, Smith (1995) proposed a ‘typology’ of individuals who embezzle. He indicated that embezzlers are “opportunists’ type”, who quickly detects the lack of weakness in internal control and gets hold of the chance to use the deficiency to his welfare. To deter embezzlement, he recommended: (a) institute strong internal control policies, which dilute the opportunity of crime, and (b) conduct an aggressive and thorough background check prior to usage.

Bologna and Lindquist (1996) in their study cited the ‘environmental’ factors that raise the probability of embezzlement of cash in hand. However, Ziegenfuss (1996) performed a study to find out the quantity and type of fraud occurring in ‘state and local’ governments. His survey revealed that the most frequently occurring cases of fraud or misappropriation of assets, theft, false representation; and false invoice. On the other hand, Haugen and Selin (1999) in their study discussed the value of
‘internal’ controls, which depends largely on management’s integrity. Appending to the situation of poor internal controls, the readily available computer technology also assisted in the offense, and the opportunity to commit fraud becomes a reality. Sharma and Brahma (2000) have emphasized on corporate bodies’ responsibility on frauds; corporation frauds could crop-up in all spheres of corporation’s dealing. Major reason for the perpetration of fraud is laxity in the observance in lay-down arrangement and procedures by monitoring staff. Harris and William (2004), however, examined the reasons for ‘loan’ frauds in corporations and emphasized on due diligence program. They argued that lack of an effective internal audit staff at the society, frequent turnover of management or directors, appointment of unqualified persons in key audit or finance posts, customer’s reluctance to supply requested data or financial statements and fictitious or conflicting information provided by the customers are the principal reasons for loan frauds.

Beirstaker, Brody, Pacini (2005) in their study proposed numerous fraud protection and catching techniques. Rezaee (2005), nevertheless, finds five interactive factors that explain several high-profile ‘financial statement’ frauds. These elements are: cooks, recipes, incentives, monitoring and end results (CRIME).

Moreover, Willison (2006) probed the reasons that contributed to the breakdown of ‘Barring’ Corporation. The collapse resulted due to the failures in management, financial and operational controls of Baring Corporations. Choo and Tan (2007) explained corporate fraud by relating the ‘fraud-triangle’ to the “broken trust theory” and to an “American Dream” theory, which starts from the sociological literature, while Schrand and Zechman (2007) relate executive over-trust in the commitment of fraud. In fact, research results by Crutchley et al., (2007) have demonstrated that “corporate environment most likely to go to an accounting scandal manifests significant growth and accounting practices that are already pushing the envelope of ‘earnings smoothing’.

Firms working in this environment seem more likely to lean over the edge into fraud if there are fewer outsiders on the audit committee and outside directors appear overcommitted.” Moreover, Bhasin (2008) studied the reasons for ‘check’ frauds, the magnitude of the frauds in Indian corporations, and the manner, in which the expertise of internal auditors can be incorporated, in parliamentary procedure to discover and
prevent frauds in corporations. In addition to seeing the common cases of fraud signals, auditors can take several ‘proactive’ steps to combat frauds.

Chen (2010) in his study examined the suggestion that “a major movement of the leading financial accounting scandals that had much publicity around the Earth was ‘unethical’ leadership in the companies and compares the use of unethical leaders in a diversity of scenarios. Through the utilization of computer simulation models, it depicts how a combination of CEO’s narcissism, financial incentive, shareholders’ expectations and subordinate silence as well as CEO’s dishonesty can do much to excuse some of the findings highlighted in recent high-profile financial accounting scandals.” According to a research survey performed

By Cecchini et al. (2010), the authors provided a methodology for detecting ‘management’ fraud using basic financial information based on ‘support vector machines’. A large empirical data set was gathered, which included quantitative financial attributes for fraudulent and non-fraudulent public companies. They reasoned that “Support vector machines using the financial kernel correctly labeled 80% of the fraudulent cases and 90.6% of the non-fraudulent cases on a holdout set. The results also show that the methodology has predictive value because, using only historical data, it was able to distinguish fraudulent from non-fraudulent companies in subsequent years.”

One method of gauging international reaction to an event is to monitor foreign news coverage, a research methodology known as content analysis. Analysis of news media includes both quantitative and qualitative examination of foreign action or reaction from outlets throughout the world. (Krippendorff, 2004) The practice of rigorously examining foreign media has a long history stretching back nearly a century, from such pioneering papers as Harold Lasswell’s dissertation thesis on World War I propaganda, (1927) to the introduction of computer analysis techniques 40 years ago with programs like The General Inquirer. (Stone et al, 1966) The news media does not form a homogenous layer of information distribution; rather it is strongly reflective of local cultural and contextual influences. A Russian newspaper article might be expected to use an American economic event as a platform for attacking the Western blend of capitalism and promoting the Russian approach. A small South American nation with a freshly minted capitalistic economy and unstable democracy might focus on the possible domestic economic damage and the risk that
such an event might force it back to a non-capital market. Exploring the ways in which outlets differ in their coverage of a given event can therefore offer significant insights into those local influences. (Gerbner and Marvanyi, 1977).

Content analysis of news media is traditionally performed using limited databases of news publications like LexisNexis™ or digitized historical collections like Proquest Historical Newspapers™. However, to fully delve into local media patterns, a different source of international news coverage is explored in this paper. Tracing its roots to the leadup to World War II, Open Source Intelligence, or OSI, describes the systematic monitoring and analysis of foreign media outlets as a method of examining international sentiment and uncovering specific areas of concern or lack thereof by external states. During WWII, the ability of open source intelligence to accurately sample and describe the sentiment of foreign nations was a crucial advantage for Allied troops. (Cantril, 1967). More recently, US intelligence officials monitoring the collapse of the Soviet Union found that more than 80% of their information came through the monitoring of public news media and other open source publications and broadcasts. (Studeman, 1992)

Beyond their use in intelligence, monitoring the international press can be an invaluable tool for exploring the global reaction to civilian events. There have been a number of books examining the impact of WorldCom’s collapse on the telecommunications industry and corporate governance, including the well-known Broadbandit by Om Malik (2003) and Lynne Jeter’s Disconnected: Deceit and Betrayal at WorldCom (2003), as well as countless academic studies like Gregory Sidak’s The Failure of Good Intentions: the Worldcom Fraud and the Collapse of American Telecommunications After Deregulation in the Yale Journal on Regulation (2003). However, while each of these recounts the factual events that led to WorldCom’s downfall and their market effects, there has been surprisingly little coverage of the international response to the collapse. Significant questions remain unanswered, such as the degree to which foreign countries viewed it as a failure of capitalism, and whether it was cast in terms of an isolated “Western” ailment as opposed to an event with significant domestic impact.

While there have been many stories of economic collapse that could be selected, the collapse of WorldCom offers a particularly rich case study. Its household name and near-dominance of the global Internet and communications infrastructure
meant it was a truly global company that was deeply entrenched in the economies of
many nations and its collapse would necessarily have real domestic impact in many
parts of the world. One of the byproducts of the globalization of telecommunications
is the interdependence of national communications infrastructures on organizations
outside of states’ borders. An entire nation’s infrastructure can now lay in the hands
of a corporate entity halfway across the globe, intertwining major societal functions
within economic links. One question therefore is the degree to which these linkages
predominate in a given nation’s press and how they are portrayed. The political
underpinnings of economic structure and the interactions of national economies at the
global scale suggest that the way in which each nation internalizes WorldCom’s
collapse will yield significant insights into how it views its place in the global
economy.

As Gerbner and Marvanyi (1977) discuss, the news media of a nation acts as a
window into the national consciousness, reflecting the overall sentiment of a
population towards an event. It might be expected that some nations would take the
opportunity to use the event as a launching pad for attacks on the capitalistic market
system of the US. In an era of interlinked economies, is it the economic or the
political impact that takes the front seat in a nation’s coverage? A country which has
an internal self-perception of a fragile economy might be expected to focus on
domestic impact, perhaps even domestic political impact if there are concerns that
governmental upheaval could result from the economic damage. Nations which
perceive their economies to be more robust and able to weather the economic storm
would likely focus outside their borders, on the effects on the international economy.
In a structured way, therefore, examining the news media of each country through this
global news medium offers a view into how each nation viewed the collapse as likely
affecting itself, and, therefore, it views of its own fragility.

Ebbers built a personal fortune based on WorldCom’s success. He used his
stock holdings as collateral to get loans to purchase yachts, a shipyard and yacht
builder, farms, a hockey team, and a 500,000-acre ranch in Canada. When
WorldCom’s stock price began to fall in 1999 – 2000, Ebbers convinced the
Compensation Committee to give him loans ($50 million at a crack) to cover the
margin calls on his loans so he wouldn’t have to sell his stock. Eventually, he owed
WorldCom more than $400 million (Pullman, Solomon, and Mollenkamp, 2002).
WorldCom’s accounting problems came to light in the aftermath of an aborted effort to purchase Sprint in 2000. Subsequent investigations revealed that WorldCom’s fraudulent understating of expenses and overstating of revenues was systematized in 1999, in a process that became known inside the company as “close the gap” (Blumenstein and Pulliam, 2003; Pulliam, Latour, and Brown, 2004). It was the news of WorldCom’s personal loans to Ebbers that eventually forced his resignation on April 29, 2002 (Romero and Schiesel, 2004). Sullivan hung on for another month until he was fired and implicated as the chief architect of the accounting fraud (Young and Perz, 2002).

WorldCom filed for corporation corrupts protection on July 21, 2002. On August 28, 2002, Sullivan was indicted on securities fraud charges and charges of conspiracy to commit securities fraud. He maintained his innocence and vowed to fight the charges (Young and Perez, 2002). As investigations continued, it became apparent that the fraud at WorldCom went deeper than just Sullivan and his immediate staff. Many people seemed to have been involved in systematically engineering the $11 billion fraud and investigators charged that “the company had a culture that lent itself to the fraud” (Blumenstein and Pulliam, 2003, p. A3). Ebbers denied any knowledge of the fraud. Because he did not use email, rarely engaged in written correspondence (except the occasional hand-written fax), and had banned any written records of substantive meetings, investigators did not have a paper trail to follow (Blumenstein and Pulliam, 2003). However, in the spring of 2003, investigators uncovered a memo that Ebbers had written to Ron Baumont, WorldCom’s COO, on July 10, 2001 that strongly suggested that Ebbers had knowledge of the close the gap process at WorldCom (Blumenstein and Pulliam, 2003).

Still, there was not sufficient evidence to pursue a separate case against Ebbers until the spring of 2004 when Scott Sullivan reversed his stand and agreed to testify against his former boss. Facing a maximum of 165 years in prison under the indictment filed against him in August 2002, Sullivan decided to plead guilty and testify against Ebbers in exchange for a reduction in sentence to a term of 25 years (Pulliam, Latour, and Brown, 2004). On March 2, 2004, Ebbers was charged with
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securities fraud, conspiracy to commit securities fraud, and making false filings to
regulators (Pulliam, Latour, and Brown).  

Detectives into the WorldCom accounting fraud charged that WorldCom’s
organizational culture made it easier to perpetrate fraud. As at Enron, WorldCom’s
culture was determined by its top executives. Ebbers had the qualities of a highly
effective leader, while Sullivan had those of an effective manager (Bennis, 2004;
Goleman, 2004; Macoby, 2004). While Ebbers was clearly the humanity in charge at
WorldCom, CFO Scott Sullivan also helped adjust the quality. Sullivan was a
workaholic who routinely put in 20-hour days and expected his staff to play equally
hard (Jeter, 2003). Unlike Ebbers, Sullivan was reliably even-tempered and known for
taking charge of his staff (Cullahan, 2004; Jeter, 2003). Whereas Enron’s Chairman
and founder Ken Lay was reportedly disengaged from the day-to-day operations at his
firm, Bernie Ebbers kept a tight watch on everything that proceeded on at WorldCom.
He did to breathe in both awe and commitment in his employees. Many people
worked extraordinarily long hours for relatively little pay, particularly in the former
days of WorldCom (Jeter, 2003). It was not uncommon for paychecks to be delivered
late, except for the sales staff who were always paid on time, and paid relatively
generously. However, employees, especially in the former days, didn’t seem to mind
the long hours and modest pay all that much. Granting to one former manager,
“Bernie made us all feel that we would definitely be covered one day. No one even
thought about abusing sick days” (Jeter, 2003, p. 41).

Although internal auditors eventually blew the whistle on WorldCom’s
accounting fraud, for years internal auditors and other management-level employees
took enormous personal risks with little guarantee of significant personal gain
(Blumenstein and Pulliam, 2003). Although top executives were paid handsomely,
there was no culture of extravagance at WorldCom. Wages were modest, bonuses
were non-existent, and perks were limited to simple privileges like free coffee in the
office and discounts on phone cards (versus free computers at Enron). Even these
modest privileges were cut when the WorldCom’s stock began to tank (Jeter, 2003).
Ebbers did not gain the obedience and loyalty of employees through charm alone. As
one former WorldCom top manager told Jeter (2003), “Bernie was a John Wayne type

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10 Blumenstein, R. and Pulliam, S. (2003, June 10). WorldCom fraud was widespread — Ebbers,
character. He always seemed to be the nice guy, but people were daunted and intimidated by him" (p. 61). Probes into the WorldCom fraud uncovered a culture of fear at WorldCom. Employees were under intense pressure to follow management orders, with many reporting that they feared that they would lose their jobs, a reasonable fear since they had seen others lose their occupations if they didn’t follow orders (Blumenstein and Pulliam, 2003; Jeter, 2003).

Ebbers used a combination of intimidation and charm to control the WorldCom’s board. Jennings (2004) observed that the business press referred to the WorldCom board as Bernie’s board “because there were so few outsiders and those who were outsiders were personally and financially obligated to Ebbers” (p. 15). Ebbers started each board meeting with a prayer, “a tradition that especially endeared older Mississippians, many of whom had invested their life savings in WorldCom stock... they didn’t realize that Ebbers was known to stay up drinking half the night with colleagues” (Jeter, 2003, p. 91).

Investigations of the fraud at WorldCom revealed that Ebbers often kept the board in the dark about some of the acquisitions. One report found that “several multibillion dollar acquisitions were approved by the board of directors following discussions that lasted for 30 minutes or less and without the directors receiving a single piece of paper regarding the terms or implications of the transactions” (Blumenstein and Pulliam, 2003, p. A3).

Ebbers also quickly dissuaded the board from considering an offer made by Verizon to purchase the troubled WorldCom in November 2001 when WorldCom’s stock was trading at $15 per share. Verizon was offering $21 per share; Ebbers wanted to hold out for nothing less than $30 per share (Blumenstein and Pulliam, 2003). Ebbers was reportedly especially mercurial with his top managers. As was the case with board meetings, staff meetings started with a prayer. The next item on the agenda was usually the stock price, or rather, how to boost the price of the stock. The Wall Street Journal reported that “at a 1998 meeting, when WorldCom shares were hovering around $65, Mr. Ebbers told about 20 senior WorldCom and MCI managers that they had to figure out a way to push the stock up to $100 a share” (Pullman, Solomon, and Mollenkamp, 2002, p. A1). Ebbers had a firm rule prohibiting his executives from selling their WorldCom stock. Those who defied this order often
found themselves summarily escorted out the door (Jeter, 2003; Pullman, Solomon, and Mollenkamp, 2002).

To what extent did Tyco's corporate culture contribute to the dirt? At first flush, it might appear that the Tyco scandal is limited to only a couple of bad executive apples, notably Kozlowski and Swartz. Nevertheless, it can be reasoned that the fact that Kozlowski and Swartz were able to come out with their misdeeds indicates a corrupt culture, at least at the executive tier. Verschoor (2003) indicated that: Extensive corporate funds were used for the personal benefit of its CEO. Tyco also announced that a five-month internal investigation had revealed a corporate culture that openly encouraged managers to promote the rules of accounting to mislead investors about the company's results. This benefited the senior level to the long-run detriment of shareholders. A memorandum to employees at one division directed them to find cost savings by 'financial engineering'. At some other unit, employees were told to 'create stories' to justify an accounting change that would improve Tyco's earnings. (p. 19)

Tyco's executive compensation and reward system also shows evidence of a corrupt culture, or at least an executive culture that fostered a strong sense of executive entitlement. For instance, see the extraordinary golden parachute deal that Mark Swartz enjoyed. Tyco's directors had considered the CFO so valuable that in 2001 they offered Swartz a retention agreement that would supply him with a manna from heaven if they sacked him for any cause other than a felony. Under the conditions of the contract, Swartz would receive a $63 million severance payment plus a payment of $8.5 million in previously restricted stock, plus $1.75 million per year for three years in a consulting contract for which he must work 30 days a year (Hechinger and Zuckerman, 2002). The Tyco directors reportedly signed a similar deal with Kozlowski in 2001. He was generating a $135 million severance payment in addition to a lifetime consulting contract for $3.4 million per year, extending his contract to 2008 and stipulating that he could simply be sacked if he was shot with a felony (Management Mayhem, 2003). As luck would have it, for Tyco, it didn't need to pay up: Kozlowski resigned, thereby voiding the contract, and Swartz was fired in relation to the felony charges.

The efforts taken by the new Tyco management team under CEO Ed Breen in the wake of the scandal suggest that Tyco management believed that the society might
be laboring under a corrupt civilization. Breen replaced the entire top management 
team. Most of the table was also substituted. An office of corporate governance was 
set up and a comprehensive Guide to Ethical Conduct for employees was built up and 
distributed to Tyco’s 260,000 employees (Pillmore, 2003). Tyco restructured and 
separated finance from operations. In a step directly relevant to the Kozlowski/Swartz 
scandal, Tyco revamped its compensation structure, placing a cap on severance 
payments, bonuses, and stock option equity awards (Pillmore, 2003). Much to the 
consternation of line employees who felt that they were being punished by the crimes 
committed by executives, Tyco also mandated ethics training for all employees 
(Reigber, 2003).

Scrushy fomented a culture of reverence and loathing at HealthSouth. Before 
the meltdown at HealthSouth, Scrushy was often depicted as a magnetic leader. 
Analysis of his leadership style in the work setting suggests that his charisma was 
more of a diabolical kind. According to New York Times analysts: Interviews with 
associates of Mr. Scrushy, government officials and former employees, as 
considerably as a critique of the litigation history of HealthSouth, paint a depiction of 
an executive who ruled by top down fear, threatened critics with reprisals and paid his 
loyal subordinates well. (Abelson and Freudenheim, 2003b, p. 3)

On Monday mornings, Scrushy conducted staff meetings, which his 
employees came to call “Monday morning beatings” because the main purpose of the 
meeting was for Scrushy to call attention to some failure and then publicly berate the 
person(s) he deemed to be responsible for the failure (Abelson and Freudenheim, 
2003b, p. 3). In his profile of “The Insatiable King Richard”, Fortune magazine writer 
John Helyar (2003) paints a similar portrait of the Monday morning meetings: At 
HealthSouth’s Monday management meeting, discussion wasn’t part of the drill. 
Officers made two-minute, the numbers-packed stories, then braced for Scrushy’s 
decrees and opinions. They might not come that far if he interrupted with his dreaded 
catch phrase, ‘That was the stupidest thing I ever heard’. (p. 78)

By all indications, Scrushy cultivated a talent of ruling through intimidation. 
Abelson and Freudenheim (2003b) wrote that Scrushy prided himself “on calling any 
manager who was not performing,” citing him as often saying, “Shine a light on 
someone – it’s funny how numbers improve” (p. 3). Scrushy did not appreciate 
hearing contrary opinions. Haddad, Weintraub, and Grow (2003) reported that he
“publicly berated financial analysts who dared to challenge his forecasts of continued growth” (p.70).

While centered on the numbers, Scrushy did not neglect any aspect of HealthSouth’s operation; he was the antithesis of the Ken Lay’s disengaged style of management. Scrushy was reportedly obsessed with filth and debris. Helyar (2003) reported that, “Every HealthSouth facility was subject to a ‘pristine audit’, a white-glove test conducted by Ernst and Young staffers in 50-point checklists. They may have lost billions in financial fraud, but they were outstanding at finding dust bunnies” (p. 79).

Scrushy also carried out these inspections on his own: Scrushy would pop up unannounced at his rehab centers for surprise inspects. Like a drill sergeant, he would run a finger along the tops of a picture frame, then wipe it on the blazer of the center’s administrator. Any visible mark meant points deducted – and potential discharge. (Haddad, Weintraub, and Grow, 2003, p. 70)

Almost single-handedly, Scrushy shaped HealthSouth’s culture, hammering into shape a group ofpliant, cowering employees. Kimberly Landry, a former HealthSouth employee who sued for defamation by the corporation after she criticized its management on a Web site, said that working at HealthSouth “was like being in a cult” (Abelson and Freudenheim, 2003a, p. 3). Other employees likened the corporate officers “as a species of Stepford Wives – excessively obedient and eager to please” (Abelson and Freudenheim, 2003a, p. 3). Scrushy did not limit his imperial management style to HealthSouth’s sales and administrative employees. In 2000, when revenues were down, he decided it was time to lower the boom on doctors working in HealthSouth’s hospitals. He decreed that every doctor would henceforth report at 8 a.m. sharp on Monday to see patients, that surgeries would begin on Tuesdays, followed by rehab on Wednesday, and patient discharge as soon as possible thereafter (Haddad, Weintraub, and Grow, 2003). Scrushy had no tolerance for criticism or contrary opinions and was exquisitely sensitive to any hint of a personal slight. At the same time, he demanded constant approval and adulation from those around him. Helyar (2003) commented, “Scrushy needed applause the way he needed oxygen” (p. 79). Scrushy ordered employees to attend free concerts performed by his rock band, with the clear implication that applause was mandatory. His main motivation for donating large sums of money to Alabama schools and community
centers seemed to be to get his name (not his company’s) on local signs and to gain personal recognition from the local community (Haddad, Weintraub, and Grow, 2003). Scrushy even built a small museum as a tribute to himself.\textsuperscript{11}

Located on the back of HealthSouth’s headquarters campus in Birmingham, the museum exhibits depict “the story of how, as a former respiratory therapist, he started the company with $1 million in seed capital and turned it into a wildly successful $4 billion hospital empire” (Haddad, Weintraub, and Grow, 2003, p. 70). Scrushy liked to hang out with celebrities, even if he had to hire them to do so. He hired athletes Bo Jackson and Troy Aiken as well as TV actor Jason Henry. Scrushy continued to seek attention and applause even as he fought the charges against him. He launched his own Website defending himself and funded his own TV talk show in Birmingham (Grow, 2004). Like Enron’s executives and Tyco’s Kozlowski, Scrushy enjoyed the trappings of wealth. His personal net worth reached $300 million in the late 1990s (Haddad, Weintraub, and Grow, 2003). He owned four mansions, a $135,000 bulletproof BMW, a $7.5 million Sikorsky helicopter, a fleet of 11 corporate jets, and ten boats, including the 92-foot yacht, Chez Soiree, from which he liked to conduct business (Haddad, Weintraub, and Grow, 2003; Helyar, 2003).\textsuperscript{12}

As CEO of HealthSouth, Scrushy fit to a tee the prototype of the narcissistic leader. Indeed, Scrushy embodied both the best and the worst of the narcissistic leader as outlined by Maccoby (2004): Productive narcissists are not only risk takers willing to get the job done but also charmers who can convert the masses with their hot air. The risk is that narcissism can turn unproductive when, lacking restraining anchors and self-knowledge, narcissists become unrealistic dreamers. They nurture grand-schemes and harbor the illusion that only circumstances or enemies block their success. This tendency toward grandiosity and distrust is their Achilles’ heel. Because of it, even brilliant narcissists can come under suspicion for self-involvement, unpredictability, and – in extreme cases – paranoia. (p. 94)

Fortune magazine writer John Helyar (2003) went so far as to charge that Scrushy met the diagnostic standards for “narcissistic personality disorder . . . a pattern of grandiosity, a need for admiration, and lack of empathy” (p. 76).

Listed Corporations

Sanda, Mikaila and Garba (2005) in their work titled ‘corporate governance mechanisms and firm financial frauds’ identified the agency theory, stakeholder theory and the stewardship theories as the three prominent theories of corporate governance which are discussed below:

One of the original advocates of stakeholder theory, Freeman (1984), identified the emergence of stakeholder groups as significant components of the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and acknowledges the numerous stakeholder groups.

Nevertheless, Sundaram and Inkpen (2004a) posit that wide-ranging definitions of the stakeholder are problematic. In summation, the writers argue that empirical evidence bearing out a link between stakeholder theory and strong frauds is missing. Ultimately, identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram and Inkpen, 2004b).

Whereas agency theorists view, executives and directors as self-serving and opportunistic, stewardship theorists, reject agency assumptions, suggesting that managers often have interests that are uniform with those of stockholders. Donaldson and Davis (1991) suggest an alternative “model of man” where “organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses” (Donaldson and Davis, 1991: p. 51). They remarked that where managers have served a pot for a number of years, there is a “melding of individual ego and the corporation” (Donaldson and Davis, 1991: p. 51). Equally, managers may carry away their role from a sense of obligation. Quoting the work of Silverman (1970), Donaldson and Davis argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige. Davis, Schoorman and Donaldson, (1997) indicated that a psychological and situational review of the theory is required to fully realize the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation (Cullen, Kirwan and Brennan, 2006). This would suggest that extrinsic
incentive contracts are less important where managers gain intrinsic satisfaction from doing their responsibilities.

Daily et al. (2003) argue that in order to protect their reputations as expert decision makers, administrators and managers are inclined to operate the firm in a way that maximizes financial fraud indicators, including shareholder returns, on the footing that the firm's frauds directly impacts perceptions of their individual functioning. According to Fama (1980), in being effective stewards of their organization, executives and directors also effectively handle their own life histories. Likewise, managers return finance for investors to build a serious reputation, letting them to re-enter the securities industry for future finance (Shleifer and Vishny, 1997).

Muth and Donaldson (1998) described stewardship theory as an alternative to agency theory which offers opposing predictions about the structuring of effective boards. While most of the governance theories are economic and financial in nature, the stewardship theory is sociological and psychological in nature. The theory as identified by Sundara-Murthy and Lewis (2003) gives room for misappropriation of owners' fund because of its board structure i.e. insiders and the president/CEO duality role.

The representation theory has its themes in economic theory and it rules the corporate governance literature. Daily, Dalton and Canella (2003), point to two constituents that influence the prominence of agency theory. Firstly, the hypothesis is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human organisms as self-interested is a generally accepted idea.

In summary, under the dominant paradigm, the agency relationship between shareholders (principals) and managers (agents) is frustrated by conflict. The agency problem arises mainly from the principal's desire to maximize shareholder wealth and the self-interested agents attempt to expropriate funds. Contracts partly solve this misalignment of interest. In a complex business environment, contracts covering all eventualities are not attainable. Where contracts fail to achieve completeness, principles rely upon internal and external governance mechanisms to monitor and control the agent. Writing and enforcing contracts and the mental process of governance
Not Attainable in Practice mechanisms give rise to agency costs. Farther, the inherent residual loss, rising when the broker does not attend to maximize shareholder wealth, adds to the agency costs.

The agency theory, posit that the command function of an establishment is mainly done by the board of managers. With respect to the control panel as a brass mechanism, the matters that come out most prominently in the literature are board composition (in particular board size, inside versus outside directors and the separation of CEO and chair positions) and the role and duties of the board (Biserka, 2007).

In recounting to the research objectives, this study will adopt the agency theory because, it focuses on the instrument panel of directors as a mechanism which rules the corporate governance literature. The hypothesis, further explain the association between providers of corporate funds and those committed to oversee the personal business of the house. This is also in accordance with the works of Ross (1973); Fama (1980); Sanda, Mukaila and Garba (2003) and Anderson, Becher and Campbell (2004).

Powell, Singh, and Winton (2007) present a model of collective accounting fraud wherein a given manager is motivated to obtain funding for a project; investors choose either to rely on a public signal from the manager or to invest in costly but unbiased private monitoring before deciding whether to invest. Depending on investors’ beliefs about the land of the universe, a manager with a bad project can increase his prospects of getting funding by overstating the project’s value. In summary, they notice that the relation between accounting fraud, real frauds, and expected frauds is non-flat. Specifically, fraud beaks in good, but not great states of the universe. The main causal factor of their findings is the degree of monitoring effort investors exerts, which they assume is influenced by the macro economy.

Hertzberg (2005) develops a model wherein variation in the manager’s short-term and long-term incentives in turn creates variation in the incentives to commit accounting fraud. Directors are more potential to commit accounting fraud when their short-term incentives are strong. Hertzberg, however, does not model which forces change the makeup of the manager’s incentives. Short-term incentives could be
increased by several modifications within the firm, by capital and labor market incentives, or by other forces in the surroundings.

Rajgopal, Shivakumar, and Simpson (2007) develop and test a catering theory of earnings management. In their model, the manager is concerned with holding the highest possible price for his firm’s shares. They see that earnings management increases in periods of high investor optimism, which they defined as periods wherein positive earnings surprises receive a larger price reaction. They do not, however, test whether earnings management increases in periods wherein negative earnings surprises are severely penalized.

Though Rajgopal et al (2007) do not model or directly test the link between earnings optimism and actual execution; they allude to as much and cite some macroeconomic theories (Taussig (1911), Keynes (1936), Lavington (1992), and Collard (1996)) that suggest that periods of earnings optimism tend to coincide with periods of high real growth. In their good example, in periods wherein optimism coincides with high real growth, it is less costly for the manager to overstate earnings because, during such periods, it is easier to replace borrowed funds later, therefore cutting down the costs of earnings management. This example is in slight contrast to the one given by Powell et al (2007), who argue that when actual frauds and expected frauds are both high, managers has less incentive to commit fraud because the lawful functioning of their firms’ is also high. This dispute, nevertheless, may derive from the papers’ different focuses. Whereas Powell et.al (2007) model the decision to commit accounting fraud, which is a high risk decision that can direct to big fines and jail time, Rajgopal et. al (2007) seem to model cases of within GAAP earnings management which is a low-risk determination, relatively speaking.

Kedia, Koh, and Rajgopal (2010) find that misreporting can have a contagion effect. Specifically, they discover that directors are more potential to begin misreporting when another firm in their industry is exposed to have misreported. They obtain this outcome but in the absence of SEC litigation of the initial misconduct. While it is not clear whether this issue is due to managers perceiving either a loose regulatory environment (i.e., a reduced cost to misconduct) or a change in social norms (i.e., that misconduct is condoned), it does seem to be driven by environmental, as opposed to firm-level, military groups.
Fernandes and Guedes (2009) document the circumstances under which accounting fraud is more likely to come and examine the relation between accounting fraud and expected and actual operation. They see a positive relation between the occurrence of accounting fraud and expected growth and a negative relation between accounting fraud and real execution. I, on the other hand, after controlling for the divergence between actual and expected output find a positive relation between accounting fraud and end product. Several measurement issues related to Fernandes and Guedes' (2009) calculation of accounting fraud could account for our different results. For example, they average Foreign Corrupt Practices Act violations over a three year period, which makes it unacceptable to identify which conditions were present when the manager decided to start committing accounting fraud. Such averaging can create a mechanical bias that leads to both overstating and understating the true act of fraud firms present in a given year. A second measurement issue arises from the years to which they attribute violations. Over their time period, fraudulent reporting lasts, on average, just under three years. Over the same time period, government litigation releases tend to come about three years after the fraud is detected. This signifies that a release in 2006 is likely to address accounting fraud that started about 2001 and was committed through 2003. Fernandes and Guedes (2009) average this release over the period 2004-2006.

Dechow, Ge, Larson, and Sloan (2010) as many hypothesized firm-level symptoms and determinants of accounting fraud develop a predictive model of fake. They prepare an audit tool, the F-Score, which has the predictive power to place a fraud firms ex post. Though their research question is different from mine, our papers have several similarities. Foremost, to build their sample of accounting fraud, Dechow et al (2010) hand collects, as I do, a large sample (i.e., 2190) of Accounting and Auditing Enforcement Releases; theirs is also one of the few papers to examine several hundred fraud firms. The major divergence between our reported sample sizes is that while Dechow et al (2010) include in their analysis all fraud years for a given firm, I include only the maiden year of fraudulent reporting. Second, both Dechow et al (2010) and the researcher test market-related motives for reporting fraud. Specifically, we both report a positive connection between accounting fraud and both the proclivity to grow capital and lagged abnormal returns. The motivation and
findings that Dechow et al (2010) document for these variables led me to include them in my analyses.

Rest et al., (1986) noted that the “six stages are viewed as forming an invariant developmental sequence in which attainment of an advanced stage is dependent on the attainment of each of the preceding stages.” (p.226). Based on Kohlberg’s theory of Cognitive Moral Reasoning, Victor and Cullen (1988) used a different approach to measure reasoning by examining the organization’s ethical climate. In the case that involved Enron, Kelly and Early (2003) indicated that “negative aspects of the ethical climate or culture within Andersen played a pivotal role in its demise” (p. 12). Additional evidence reveals that a company’s ability to maintain an ethical corporate culture is important to the attraction, productivity and retention of employees as well as the organization’s customers. “Accountants violations have led to government intervention, and lost of the public’s trust” (Chan, Leung, 2006, p. 436).

Unethical practices will affect businesses in several ways. First, consumers tend to shy away from products and services from organizations with unethical reputations (Gilbert, 2003; Babin et al., 2004; Roman and Ruiz, 2005); affecting current and future business hurting the value of the organization. Second, some unethical practices are also illegal or fraudulent, consequently increasing the organization’s financial risk, liability, and costs (Neese et al., 2005). Third, unethical climate has a pervasive effect on employees via high levels of workplace stress, lower job satisfaction, low frauds, and high turnover (Weeks and Nantel, 2004).

Dellaportas (2006) contends that accounting students may reason more ethically through intervention on a course dedicated on accounting ethics. Results of Dellaportas’ study reveal that accounting students through intervention respond more positively to moral reasoning using a series of dilemma questions base on Kohlberg’s theory of moral development. Furthermore, the awareness of moral reasoning may be stimulated by curriculum and is therefore encouraged. In a comparative study done by Venezia (2005), indicated that ethical reasoning abilities of accounting students depend on the cultural orientation of the student. Venezia (2005) findings are in line with the results of Pitta et al., (1999) which stated that national culture shapes the foundation of ethical behavior of accounting student surveyed in their study. Venezia surveyed students using the Defining Issues Test (DIT) instrument to compare accounting students from Taiwan to the United States and determine whether culture
plays an important role on moral development. Results of Venezia’s study show a significant difference between the U.S. and Taiwanese accounting students ethical reasoning abilities.

In addition, Clikeman (2003) discusses the importance of accounting educators to promote ethical standards to accounting students. Clikeman’s (2003) stated the idea that accounting students with ethical standards will prevent future accounting scandals. Clikeman’s research suggests that, “accounting education does influence students’ professional attitudes” (Clikeman, 2003, p80.) This assertion was a result of a he and a colleague conducted in 2000 using a sample of 164 accounting students enrolled in Southern Methodist University.

A testing of prior literature reveals that the likelihood of committing fraud has typically been investigated using financial and/or governance variables. The moral, ethical, psychological and sociological facets of fraud have also been extended by the literature. Moreover, some studies also indicated that psychological and moral factors are important for reaching an agreement of what causes unethical behavior to occur that could finally lead to fraud. A great bulk of these surveys was performed in developed, Western nations. Nevertheless, the manager’s behavior in fraud commitment has been relatively unexplored so far. Consequently, the overarching objective of this report is to examine managers’ unethical behaviors in documenting corporate fraud cases on the basis of press articles, which make an ex-office evaluation of alleged or acknowledged fraud cases. Unluckily, no written report has been led to examine behavioral aspects of the manager’s in the prolongation of corporate frauds in the setting of a developing economy, like India. Hence, the present work tries to fulfill this gap and contributes to the literature.

Research Problem

Corporations and other financial intermediaries are at the heart of the world’s recent financial crisis. The deterioration of their asset portfolios, largely due to distorted credit management, was one of the main structural sources of the crisis (Fries, Neven and Seabright, 2002; Kashif, 2008 and Sanusi, 2010). To a large extent, this problem was the result of poor corporate governance in countries corporation institutions and industrial groups. Schjoedt (2000) observed that this poor corporate
governance, in turn, was very much attributable to the relationships among the
government, corporations and big businesses as well as the organizational structure of
businesses.

In some countries, corporations were part of larger family-controlled business
groups and are abused as a tool of maximizing the family interests rather than the
interests of all shareholders and other stakeholders. In other cases where private
ownership concentration was not allowed, the corporations were heavily interfered
with and controlled by the government even without any ownership share
(Williamson, 1970; Zahra, 1996 and Yeung, 2000). Understandably in either case,
corporate governance was very poor. The symbiotic relationships between the
government or political circle, corporations and big businesses also contributed to the
maintenance of lax prudential regulation, weak corporation codes and poor corporate
governance rules and regulations (Das and Ghosh, 2004; Bai, Liu, Lu, Song and
Zhang, 2003). Before the consolidation exercise, the corporation industry had about
89 active players whose overall frauds led to sagging of customers’ confidence. There
was lingering distress in the industry, the supervisory structures were inadequate and
there were cases of official recklessness amongst the managers and directors, while
the industry was notorious for ethical abuses (Akpan, 2007) Poor corporate
governance was identified as one of the major factors in virtually all known instances
of corporation distress in the country. Weak corporate governance was seen
manifesting in form of weak internal control systems, excessive risk taking, override
of internal control measures, absence of or non-adherence to limits of authority,
disregard for cannons of prudent lending, absence of risk management processes,
insider abuses and fraudulent practices remain a worrisome feature of the corporations
system (Soludo, 2004b). This view is supported Exchange Commission (SEC) survey
in April 2004, which shows that corporate governance was at a rudimentary stage, as
only about 40% of quoted companies including corporations had recognized codes of
corporate governance in place. This, as suggested by the study may hinder the public
trust particularly in the corporations if proper measures are not put in place by
regulatory bodies.

RESEARCH GAP

The various reports, research papers, and theses deliberated above discuss the
unethical practices and frauds in accounting with regard to different companies across
the globe. However, no study has been undertaken to investigate the status of unethical practices and accounting frauds in respect of corporate companies. Therefore, the present study is an endeavor to study the unethical practices and accounting frauds in respect of multinational corporations after 2005. Corporations with a view to offer suggestions for the eradication of frauds (if any) and the promotion of ethical conduct. Considering the year 2006 as the year of initiation of post consolidation governance codes for the corporate sector, this study investigates the relationship between corporate governance and financial frauds of corporations.

The choice of this sector is based on the fact that the corporate sector’s stability has a large positive externality and corporations are the key institutions maintaining the payment system of an economy that is essential for the stability of the financial sector. Financial sector stability, in turn, has a profound externality on the economy as a whole. To this end, the study basically covers the 21 listed corporations out of the 24 universal corporations, operating till date that met the N25 billion capitalization deadline of 2005. The study covers these corporations' activities during the post consolidation period i.e. 2006-2012. The choice of this period allows for a significant lag period for corporations to have reviewed and implemented the recommendations by the CBN post consolidation code.

PURPOSE AND SCOPE OF STUDY

Taking the year 2006 as the year of initiation of post consolidation governance codes for the corporations sector, this study investigates the relationship between corporate governance and fiscal operation of corporations. The selection of this sector is established along the fact that the corporation’s sectors stability has a large positive externality and corporations are the key institutions maintaining the payment scheme of an economy that is indispensable for the constancy of the financial sector. Financial sector stability, in turn causes a profound externality on the economic system as a whole. To this goal, the study basically covers the 21 listed corporations out of the 24 universal corporations till date that met the N25 billion capitalization deadline of 2005. The work covers these corporations' activities during the post consolidation period, i.e. 2006-2012. The choice of this period allows for a significant lag period for money boxes to have brushed up and implemented the recommendations by the CBN post consolidation code.
Furthermore, we focused exclusively on the corporation industry because corporate governance problems and transparency issues are important in the corporation sector due to the crucial role in offering loans to non-financial firms, in conveying the effects of monetary policy and in offering stability to the economic system as a whole. The study, therefore covers four key governance variables which are board size, panel composition, directors’ equity interest and governance disclosure level.

Furthermore, we focused exclusively on the Enron, Worldcom, Tyco, HealthSouth and some listed corporate industry because corporate governance problems and transparency issues are important in the corporate sector due to the crucial role in extending loans to non-financial firms, in transmitting the effects of monetary policy and in offering stability to the economic system as a whole. The subject, therefore covering four key governance variables which are board size, panel composition, director’s equity interest and governance disclosure level.

OBJECTIVES OF THE STUDY

Recently, the frauds in accounting in some of the leading corporate houses like Enron, WorldCom, Tyco, HealthSouth. The primary aims of this work are to:

(1) Identify the prominent global corporates involved in fraudulent financial reporting practices and the nature of accounting irregularities they committed.

(2) Exposing the true perpetrators behind these scandals.

(3) To gain insight into the unethical accounting practices of selected corporate entities.

To complement prior literature, we examined “documented behaviors in cases of corporate scandals, using the evidence taken from press articles (such as managers’ quotes and journalists’ analyses)” . In this context, research-based evidence by Miller (2006) has shown that “press fulfill the role of a monitor or watchdog for accounting frauds by rebroadcasting information from other information intermediaries (analysts, auditors, and lawsuits) and by undertaking original investigation and analysis”. In addition, we prepared the “Corporate Scandal Fact Sheet,” which includes a list of ‘short’ vignettes on companies, and the names of the main characters involved in the
corporate fraud scandals. To attain the above stated research objectives we applied a "content" analysis to the "press" articles.

**HYPOTHESIS**

**Hypothesis 1:**

H0: There is no significant relationship between Board size and fiscal operations of depository financial institutions.

**Hypothesis 2:**

H0: There is no significant variation in the financial frauds of sample corporations with foreign directors and corporations without foreign directors.

**Hypothesis 3:**

H0: There is no significant relationship between the ratio of non executive directors and the financial frauds of sample corporations.

**Hypothesis 4:**

H0: The relationship between Directors' Equity Holding and the financial functioning of depository financial institutions is not significant.

**Hypothesis 5:**

H0: The relationship between the governance disclosures of corporations and their operations is not significant.

**Hypothesis 6:**

H0: There is no significant difference between the profitability of the healthy and the rescued corporations.

**METHODOLOGY**

This thesis utilizes various approaches due to the nature of the research problem and the proposed solutions. It is doctrinal and qualitative to the extent that the process adopted is one which selects existing legal doctrines and regulations, as well as relevant literature which is most applicable to the research problem and analyses them in relation to the manner in which they influence the problem and the
extent to which they have provided and can provide solutions to the problem.\textsuperscript{13} It employs traditional doctrinal research methodology in law by identifying and analyzing relevant legislation, cases and secondary legal materials; as well as adopting the research methodology in the social sciences which develops from a review of relevant literature. This research qualifies as qualitative to the extent that it identifies a problem which has social implications, and develops arguments aimed at influencing policy and law reform in relation to the research problem.\textsuperscript{14} It is applied research as it investigates a situation, identifies a problem and aims to use the information derived to enhance a better understanding of the problem and influence policy considerations.\textsuperscript{15} It is also descriptive, co relational and explanatory in the manner in which the research problem is approached, because it describes an existing situation, identifies a correlation between aspects of the problem and seeks to proffer explanations regarding the problem.\textsuperscript{16} The thesis adopts an unstructured qualitative approach as its fundamental aim is to ascertain and describe the existence and nature of a problem; analyze perspectives and attitudes surrounding it; employ qualitative variables in conceptualizing the problem and proffered solutions; and its analysis is aimed at establishing the variation in the problem without necessarily quantifying it.\textsuperscript{17}

**RESEARCH METHODS**

An introductory narrative is given to provide a background to the problem which led to the research, the aims of the research, the scope and the justification for undertaking the research. These sections highlight the existence and impact of the problem, and provide a basis for understanding the solutions suggested. There is also an overview of the thesis, highlighting the structure and contents of each chapter, as well as a presentation of the core arguments in the thesis as an indication of the crux of the research. The introductory chapter also contains a section which explains the research methodology adopted, and a section which provides working definitions of


\textsuperscript{14} Dobinson and Johns, ibid.


\textsuperscript{16} Kumar, ibid 11.

\textsuperscript{17} Kumar, ibid 13.
the significant terms used in the thesis, as a means of enabling a clear understanding of the context of the thesis as a whole and situating its arguments. It is arguable that terms may be ascribed different meanings in different situations, so the section on definition helps to present the exact meaning of the terms used in this thesis.

A literature review is conducted to provide a foundation for understanding the issues engaged with in the thesis. An analysis of relevant literature enables an overview of the academic and policy origins, as well as contemporary approaches, to the perceived problem addressed by the thesis and the issues surrounding it. It also highlights the gaps which exist in corporate governance literature and policy in relation to the problem. The review is undertaken in a thematic manner, to enable a clearer understanding of each set of issues. These issues flow from the fundamental theories and basis upon which the problem arises to all the other issues which surround or impact on the problem and possible solutions. In the literature review, each theme leads into the next and graduates to the specific basis upon which the research question is formed and the solutions suggested. In relation to choice of literature, the aim was to highlight and analyze those pieces of literature which contribute to an adequate understanding of the issues raised in each section.

In the subsequent chapters, the issues which emanate from the research questions are analyzed, with discussions on the meaning of the terms in question, how they relate to the problem, why they are an important aspect of the problem, and how they influence the solutions to the problem. The issues are discussed in this manner so as to enable a clearer understanding of the context in which they arise in the thesis and how they relate to the research problem. For example, the terms “risk” and “personality” are defined according to relevant literature and the context in which they are used is made evident in the analysis.

Theoretical analysis was conducted on the underlying aspects of the thesis such as the origin and existence of companies, meaning of corporate governance, risk management and regulation. This was done by reviewing the relevant literature on those subjects. The aim was to establish a foundation upon which conceptual arguments could emerge surrounding the crux of the thesis.

The theoretical framework for the thesis is centered on the meaning and import of companies, corporate governance, corporate boards, corporate failure, risk
and regulation. The conceptual framework is centered on the impact of behavior on corporate failure, what constitutes behavior, whether behavioral risks are identified and managed effectively, and if and how regulation can contribute to managing these risks. The establishment of a theoretical framework by an analysis of relevant literature and observations regarding current trends in corporate governance serves as a guideline and enables the development of the conceptual framework which encompasses the research problem and solutions.

Reports of government established bodies and non-governmental groups on the issues which led to corporate failures were analyzed with the aim of highlighting the extent to which the research problem has been viewed in those circles and to illustrate current attitudes towards the problem. Court cases and judgments arising out of corporate failures were also highlighted in order to evidence the seriousness of the problem and the judicial view taken of it. The court verdicts also indicate the practical aspects of the research problem and societal attitudes towards the problem. The current attitude towards the research problem forms a basis for arguments in support of the existence and impact of the problem and the necessity of the solutions suggested in the thesis. As the UK is part of the European Union (EU), the approaches to the research problem as viewed from an EU perspective are also analyzed.

The examples of cases of corporate failures are used primarily in this thesis to explain the practical impact of behavior as a contributory element in corporate failures. The high profile cases which occurred in the UK, US and Australia are selected because the reports of the failures are publicly available as they had huge negative impacts on society and were investigated in detail. Also, these cases illustrate the issue of corporate failures in public listed companies and this thesis focuses on such companies and argues for statutory regulatory intervention based on the effect of such failures on society. These cases, therefore, constitute direct examples of the problem in question. Again, these cases all occurred in jurisdictions with similar corporate law origins and foundation. These jurisdictions follow the philosophical underpinnings of the contractual theory of corporations and the free market ideology. This similarity is evident in the wording of the UK Companies Act (section 7 and 8), the Delaware General Corporations Law (section 101, 107 and 109) and the Australian Companies Act (section 17, 19, 22 and 23). The examples of corporate failures used are, therefore, relevant in highlighting the problems of personality risks
and providing a basis for understanding the solutions suggested in the thesis. Adopting examples from jurisdictions outside the UK was also thought to be relevant and informative because corporate governance is increasingly a global phenomenon; and an increasing number of companies have cross listings in different jurisdictions. Therefore, even though the focus of the thesis is the UK, the examples used illustrate that issues of personality are indeed universal as rightly noted in the psychological literature.

Personality is essentially a psychological and physiological construct which has been predominantly researched in the field of psychology; therefore an in-depth analysis was conducted on relevant psychological literature in order to enable a clear understanding of the term “personality” and its impact on behavior. The dissertation aims to provide the linkage between personality and behavior, and thus there was an analysis of a body of literature in the field of psychology which establishes the relationship between these concepts.

Behavioral issues are psychological and have been studied in that field of study, therefore, the foundational theories as well as contemporary thinking regarding behavior and the genes which influence behavior was obtained by studying the relevant literature in that area. This was likewise performed to highlight the other variables which impact on behavior, such as citations, and to break down the dominance or not of one or the other, in an effort to highlight the point of impact of each component on behavior.

Examined and discussed with a bid to highlight arguments in favor and against a regulatory regime as proposed in the dissertation. Based on existing examples of rule as a chassis, an instance of what the model might mean in terms of provisions was passed upward. The pertinence of the mannequin in the present UK corporate governance framework is also analyzed with a view to situating the model in the immediate infrastructure, taking the impact of change and its economic implications. This is directed at producing the model an attractive and immediately available mechanism and highlighting its compatibility with existing regimes as well as areas of differences, in lodge to show more clarity as to the added value of the manikin.

In conditions of accessing literature, searches were made in legal, social sciences and psychology databases, selecting literature which came along to be
seminal works, authoritative journal articles and books relevant to the research subjects. In conducting the searches, key words, phrases and terms were developed from the major themes in the thesis, such as “causes of corporate failure”, “behavior”, “personality”, “personality and behavior”, “company agents”, “company directors”, “corporate officers”, “corporate governance”, “risk”, “risk management”, “corporate failure”, “regulating companies”, “corporate theories”, and were used both singly and in conjunction with the secondary themes in the thesis to enable an identification of relevant literature. The items of literature which are then selected are the ones which enable an adequate understanding of the perspectives being proffered in the thesis, and without which the arguments and the developments in the thesis would be incoherent.

Government databases in the UK and the EU were also searched in order to obtain reports and current regulations on the relevant issues in the thesis. The Internet was searched for current and contemporary debates, information and materials on the issues. This information was then reviewed with a focus on relevance, authenticity and authoritativeness. Literature, regulations and policy developments were then analyzed in the light of the research issues.

The suggestions outlined in the thesis are based on highlighted limitations in existing frameworks, and takes cognizance of fundamental corporate and regulatory theories, the general idea being to build on a firm and established foundation. The thesis finishes with a conclusion which highlights the import of the thesis as a whole, reiterating its major arguments and advances. This section also highlights areas in which the findings of the thesis can prove useful and suggests areas of further research with the aim of aiding continuity in the expansion of knowledge and development of other aspects which might correlate with the research problem and the solutions offered.

This work made use of secondary information in building the relationship between corporate governance and financial frauds of the 21 corporations. The secondary information is obtained basically from published annual accounts of these corporations. Books and other related materials especially the Corporate Fact Book for 2012 were also reviewed.
In analyzing the relationship that exists between corporate governance and the financial frauds of the studied corporations, a panel data regression analysis method was adopted. The Pearson correlation was used to measure the degree of association between variables under consideration. However, the proxies that were used for corporate governance are: board size, the proportion of non-executive directors, directors' equity interest and corporate governance disclosure index. Proxies for the financial frauds of the corporations also include the accounting measure of frauds; Return on Equity (ROE) and Return on Asset (ROA) as identified by First Rand Corporate Group (2006). To examine the level of corporate governance disclosures of the sampled corporations, the content analysis method was used. Using the content analysis, a disclosure index is developed for each corporation using the Nigerian post-consolidation code and the Organization for Economic Cooperation and Development (OECD) code of corporate governance as a guide. This was used alongside with the papers prepared by the UN Secretariat for the nineteenth and the twentieth session of International Standards of Accounting and Reporting (ISAR), entitled “Transparency and Disclosure Requirements for Corporate Governance” and “Guidance on Good Practices in Corporate Governance Disclosure” respectively.

The t-test was applied in dissecting the dispute in the execution of the healthy corporations and the rescued corporations. It was also applied to see if there is any significant divergence in the functioning of depository financial institutions with foreign directors and that of the corporations without foreign directors.

TOOLS OF ANALYSES

This part discusses the method and procedures employed in carrying out the research. It also discusses the research design, study population and the data gathering method. The methods employed for data analysis and measurement which include the content analysis technique, regression analysis and the t-test statistics were also discussed.

ORGANIZATION OF THE STUDY

Enron, WorldCom, Tyco, HealthSouth and listed corporation was selected for analysis because of the accessibility of information on their organizational culture and of the specific details of the companies’ ethical lapses. While there is now a big and growing literature on the Enron debacle and, to a much lesser extent, the meltdown at
WorldCom, information on the scandal and the organizational culture evident of the corporation at the time of the scandal is much more difficult to obtain from them than it is to get from most other houses.

Much data has been and is still being withheld pending the issue of civil and criminal litigation related to four companies studied. Because of the accessibility of information and the pertinence of the shell to the scandals at the other firms, this analysis puts a special stress on the Enron scandal.\textsuperscript{18}

In that location were other grounds for the final selection besides the availability of data. Enron was selected because it was the first in a series of major corporate scandals, because of the wide publicity of the event, and because Enron has become synonymous with corporate malfeasance. As the largest accounting fraud in world history, it appeared necessary to select WorldCom for analysis. Tyco and HealthSouth were selected to amplify and complement the analytical material available in the WorldCom and Enron cases. All four organizations are U. S.-based corporations with international operations. Troika of the four firms represent distinct (and different) industries – energy (Enron), health care (HealthSouth), and telecommunications (WorldCom) – while the fourth, Tyco, is a conglomerate with stakes in a range of industries from health care to plastics to fire to procure. The scandals at all four firms involved questionable or fraudulent accounting practices as well as a range of unethical and/or illegal actions carried out by top directors and executives. In all four instances, the actions of unscrupulous executives hurt their company and their stakeholders. Enron and WorldCom were driven to corporation corrupts, while HealthSouth was de-listed from the New York Stock Exchange. The Tyco scandal caused a near-mortal injury to the conglomerate’s reputation. HealthSouth was chosen for analysis because former CEO Richard Scrushy was the first CEO of a major company to be indicted on charges of knowingly filing false financial statements under the Sarbanes-Oxley Act, which was enacted in the aftermath of the Enron crisis (Abelson and Freudenheim, 2004). The Tyco case was picked out because of its deviation from the other three events. Enron, WorldCom, and HealthSouth were all set up in the 1980s and the recent corporate scandals at each company involved executives (Lay, Ebbers, Scrushy) who were part of the company’s

foundation. Tyco, on the other hand, was established in the early 1960s and former CEO Dennis Kozlowski – the man at the heart of the scandal – had led the company only since 1992 (Hoover’s, 2004b).  

LIMITATIONS OF THE STUDY

Considering the year 2006 as the year of initiation of post consolidation governance codes for the corporate sector, this study investigates the relationship between corporate governance and financial frauds of corporations. The choice of this sector is based on the fact that the corporation sector’s stability has a large positive externality and corporations are the key institutions maintaining the payment system of an economy that is essential for the stability of the financial sector. Financial sector stability, in turn, has a profound externality on the economy as a whole. To this end, the study basically covers the 21 listed corporations out of the 24 universal corporations, operating till date that met the N25 billion capitalization deadline of 2005. The study covers these corporations’ activities during the post consolidation period i.e. 2006-2012. The choice of this period allows for a significant lag period for corporations to have reviewed and implemented the recommendations by the CBN post consolidation code.

DIRECTION FOR FURTHER RESEARCH

Initial indications suggest the topical orientation of coverage of the Enron collapse matched that of WorldCom very closely, suggesting a possible trend in the way the international press covers large corporate scandals. Future research will explore press coverage of other corporate scandals and whether it differs based on the home country of the offending company or its market, and whether there are substantial differences in print versus broadcast coverage of these events.

Another direction for future work includes the exploration of sentiment analysis in the context of foreign reaction to the WorldCom collapse. In particular, datasets such as the Dictionary of Affect in Language (Whissell, 1989) provide lexicons of the English language, with scores for each word of Evaluation/Emotion (how negative or positive), Activation (the level of energy expressed, such as “dislike” vs. “loathe”), and Imagery (how easily conceptualized/visualized the

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concept is, such as "dissuade" versus "attack". Sentiment mining refers to the use of such lexicons to generate an average score for each document representing its overall sentiment along these three vectors. Such analysis allows for the measurement of subtle differences in the tone in which an event is covered and will provide an even richer source of comparative data on international coverage of events and its ability to underscore regional differences in event impact.

Furthermore, we focused on WorldCom, like Enron, WorldCom, Tyco, HealthSouth and some listed corporations, because corporate governance problems and transparency issues are important in the corporate sector due to the crucial role in providing loans to non-financial firms, in transmitting the effects of monetary policy and in providing stability to the economy as a whole. The study therefore covers four key governance variables which are board size, board composition, and directors' equity interest and governance disclosure level.

SUMMARY

This study made use of secondary data in establishing the relationship between corporate governance and financial frauds of the Enron, WorldCom, Tyco, HealthSouth and some listed corporations. The secondary data is obtained basically from published annual reports of these corporations. Books and other related materials especially the Central Corporation bullions and the Stock Exchange Fact Book for 2012 were also reviewed.

WorldCom embodied success in its moment of glory, while it became the symbol of disgrace in its moment of defeat. Its story was not that of a good company come upon hard times, but rather a bedtime tale of an empire built upon corruption and fraudulent practices. The sight of Bernie Ebbers doing the walk has nearly faded from memory, replaced by newer scandals, but it must not be forgotten that at the brink of its collapse, WorldCom was the very symbol of the power of capitalism gone right, and, with its downfall, the poster child of its possible evil. Its immense international presence ensured that its failure would garner attention across the world.

The effects of a globalized economy and the strong role WorldCom played in the telecommunications infrastructures of many nations ensured that WorldCom's collapse was felt in the press across the world. Taken together, Access World News and World News Connection offer the story of a global press reacting to the
worldwide impact of the collapse of an international company. Economic impact, 
both international and domestic, was the most important topic, illustrating the 
latitudinous consequences that substantial fiscal events can have in this era of 
globalized economies. During the year of its collapse, coverage of WorldCom as a 
telecommunications actor dropped to an insignificant level, overshadowed by its 
unfolding economic scandal. WorldCom was iconic of the mighty American 
corporation, the pillar upon which the United States’ economic power rested, 
suddenly brought to its knees. With the constant parade of the formerly invulnerable 
being exposed as nothing more than elaborate facades, the public was left wondering 
what’s next?

In analyzing the relationship that exists between corporate governance and the 
financial frauds of the studied corporations, a panel data regression analysis method 
was adopted. The Pearson correlation was used to measure the degree of association 
between variables under consideration. However, the proxies that were used for 
corporate governance are: board size, the proportion of non-executive directors, 
directors’ equity interest and corporate governance disclosure index. Proxies for the 
financial frauds of the corporations also include the accounting measure of frauds; 
return on equity (ROE) and return on asset (ROA) as identified by First Rand 
Corporate Group (2006). To examine the level of corporate governance disclosures of 
the sampled corporations, the content analysis method was used. Using the content 
analysis, a disclosure index is developed for each corporation using the post 
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(OECD) code of corporate governance as a guide. This was used alongside with the 
papers prepared by the UN Secretariat for the nineteenth and the twentieth session of 
International Standards of Accounting and Reporting (ISAR), entitled “Transparency 
and Disclosure Requirements for Corporate Governance” and “Guidance on Good 
Practices in Corporate Governance Disclosure” respectively.

The student t- test was used in analyzing the difference in the frauds of the 
healthy corporations and the rescued corporations. It was also used to determine if 
there is any significant difference in the frauds of corporations with foreign directors 
and that of corporations without foreign directors.
REFERENCES


