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A CORPORATE DILEMMA

UNINTENDED EFFECTS OF GOAL ATTAINMENT

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The number, size, frequency and consequences of cases involving fraudulent financial reporting are overwhelming and discouraging. The list, it seems, could be endless, but some of the more notable names that come to mind are Enron, Rite Aid, Tyco Electronics, Adelphia, and Arthur Andersen. The consequences are staggering. Revered and honorable names slide down the slippery slope and go "waist deep into the muddy!" Thousands of good people are out of work. Thousands of people who thought they had good financial "nest eggs" found out that they had figuratively nothing at all. Accounting has suddenly become an intriguing career choice, but for all the wrong reasons. We ask how we got to this point. This is not the 1920s and the 1930s. We have safeguards, or so we thought. In this paper we take a look at some interesting situations that are to some degree contributing factors.

From an accounting perspective we divide fraud into two broad categories: the misappropriation of assets and fraudulent financial reporting. Of course, not all fraud cases would fit neatly into one of these two groupings. For example, where might we put the crime for which Martha Stewart was convicted? We think of fraudulent financial reporting as having to do with external reporting but it also relates to internal financial reporting. This paper addresses conditions giving rise to fraudulent financial reporting.

While this paper subsumes lower level employee theft, the focus is more importantly on the management and senior personnel and the role they play in the development of corruption and fraud. We define corruption as the use of an organizational position or authority for personal or organization (or sub-unit) gain, departing from accepted societal and professional norms. Because the last persons to see themselves as corrupt or fraudulent are those accused, this definition allows for the possibility that societal and/or professional standards may identify corruption while the person(s) accused may see themselves as ethical.

We borrow from the behavioral sciences to offer deeper explanation for fraudulent actions, particularly those encountered by forensic accounting professionals. The forensic accountant is sometimes in the position of influencing an organization in terms of appropriate accounting practices and we argue that appropriateness includes the proximal and distal impacts of accounting practices on employee and management behavior.

"Why Do They Do It?"

The recent wave of corporate scandals will cause us to ask why the guilty behaved as they did. In the midst of the outrage, many conclusions are reached that are not necessarily accurate or help-

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