Practitioner Article

Accounting scandals in the context of corporate social reporting

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ABSTRACT The main theme of this study is to explore fraudulent disclosure practices in the context of Corporate Social Reporting (CSR), and to investigate the moderating role of beneficiaries in the nexus between media coverage and fraudulent disclosure practices. Beginning with a brief review of the conceptual background of CSR, this article proposes a model to test the relationships between CSR and fraudulent disclosure practices conceptually. The accounting scandals of four banks were scrutinized and analyzed by means of case study in order to validate the results. The findings suggest that CSR should be adopted for giving information to public about the accounting scandals. Four managerial failings indicate that the interaction of media coverage and disclosure practices is unfavorable in the context of CSR. The reasons for accounting scandals are provided. Some recommendations are highlighted in order to implement CSR and corporate governance reforms. This study provides a basis for future studies. If the four factors are well-managed, then the linkage between media coverage and fraudulent disclosure practices is more likely to be positive. A greater organizational focus on CSR is likely to enable the disclosure of accounting scandals to take place earlier, in contrast with existing practice which was focused on hiding losses for as long a period as possible. A limitation of this study is that it is limited to developing a conceptual framework. In future studies, the relationship between media coverage and fraudulent disclosure practices will be investigated empirically and encompass longitudinal studies.

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INTRODUCTION

In recent years, the notion of Corporate Social Reporting (CSR) has been gaining ground globally,^{1,2} acquiring the status of

a significant discipline for all businesses. In the main, companies carry out CSR as a means to divulge their environmental and social accounting information to

stakeholders, investors and public through one powerful channel: the media.

Companies frequently use conventional print media such as annual reports, environmental reports, news media, advertisements, brochures³⁻⁶ as well as the internet.^{7,8} Accounting research studies suggest that organizations have considered positive accounting disclosure as a response to negative media coverage (see, for example, Brown and Deegan³; O'Donovan⁹; Deegan *et al.*⁴). The same degree of interest, however, has not been applied to media coverage of other issues such as the disclosure of accounting scandals and the absence of adequate regulation. The focus of this study is therefore to investigate this issue in the context of CSR and also to examine the moderating role of beneficiaries in the interaction of media coverage and fraudulent disclosure practices. In this study a number of outcomes are provided and explored conceptually, with case-study analysis used as the starting point for further research in this regard.

This article is organized as follows: the first section (following) sets out a literature review. This is followed by an outline of the methodology used, results, discussion of the results and conclusion. The final section puts forward directions for future research as well as limitations of the current work.

LITERATURE REVIEW

The concept of CSR has been enormously successful in recent years, having emerged as an important business issue across a range of agendas.¹⁰ Traditionally, the notion of Corporate Social Responsibility (CSR) has been used for defining the social issues. In 1953, Howard R. Bowen¹¹ coined the term of 'Corporate Social Responsibility'. In 1979, Carroll¹² defined Corporate Social Responsibility as follows: 'Social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time'.

Previous research focused on Corporate Social Responsibility as a variable in corporate performance both social and financial. In the 1980s Corporate Social Responsibility was seen increasingly as a component in labor-related issues.¹³ Today, however, the focus is on environmental accounting, management and disclosures. The primacy of these issues leads to the notion of Corporate Social Responsibility being identified in terms of accountability and transparency.¹⁴

CSR is a fundamental concern for business as well as society,¹⁵ with a number of studies emphasizing the role of social and environmental responsibility.¹⁶ There has been a marked shift from previous years, when social issues research was seen as based in CSR, and environmental issues research linked to Environmental Management (EM). More recently, both social and environmental issues have been included under the umbrella of Corporate Sustainability (CS),¹⁷ 'Corporate Social Reporting' or the Triple bottom-line concept.¹⁸

John Elkington,¹⁹ coined the term 'Corporate Social Reporting'. This may be defined by either of two approaches. The first is 'Ecology Sustainability', which is a concern for the environmental dimensions of business.²⁰ The other is the tridimensional approach that includes economic, social and environmental dimensions of business.²¹ Many studies (for example, Bansal²¹; Carroll²²) now use this definition and paradigm of Corporate Social Responsibility and CSR. The result of all this definitional change is to increase managerial uncertainty as to where their focus should be.

CSR is more closely associated with intrinsic value pattern whereas Corporate Social Responsibility is linked to the use-value paradigm. They may operate within different frameworks: however, both CSR and Corporate Social Responsibility are in the process of converging because environmental issues that are a significant

element of the social performance dimension in the latter are also a significant element in the sustainability framework that makes up the CSR model.¹⁷

Carroll²³ extrapolated four dimensions of CSR: *economic*, that is ensuring viability through providing stakeholders with a continuous flow of products and services; *legal*, that is to protect interest of stakeholders; *ethical*, that is the use of ethical principles as a basis for guiding policy, accentuating not just what companies can do but also what they should do; and finally *philanthropic*, that is improving life for others by voluntary service and giving for the public good.

Theories that deal with social and environmental disclosures in the context of CSR are Stakeholder Theory, Legitimacy Theory and Media Agenda Setting Theory. Stakeholder theory and Legitimacy theory have both developed from a broad political viewpoint: both are focused on the relationship between an organization and its operating environment.¹

Research on social disclosures has been carried out from the perspective of stakeholder theory.²⁴ Research on environmental disclosures has been viewed from the perspective of Legitimacy theory^{1,25} or Communication and Impression management.^{26,27} Stakeholder theory shows the direct impact that stakeholders have on the management decisions regarding company activities and disclosures.²⁴ Further research shows how Stakeholder theory can be a valid tool for providing insight into managerial behavior when the business environment requires managers at micro level to interact with identified stakeholders. By contrast, Legitimacy theory provides insight into managerial behavior when environment is, at conceptual level, dealing with heterogeneous, competing groups of stakeholders.²⁸

Legitimacy theory highlights how organizations are continually seeking to make sure that they operate within

the limits and norms of their particular societies.²⁹ Organizational legitimacy can be created or enhanced through the use of symbols communicating a 'public image',³⁰ which in turn is associated with the organizations's major goals, methods of operations and output.³¹ Research demonstrates how companies which operate in environmentally sensitive industries tend to disclose environmental accounting information in order to legitimize their existence to society.^{4,9,32}

Legitimacy theory therefore provides the most comprehensive tool for populating CSR¹: evaluating activities at a managerial level it focuses on the range of various strategies that managers may adopt in order to be viewed as legitimate.⁴

In this context, an organization may employ 'legitimation' strategies,³³ in much the same way as many organizations apply voluntary disclosure strategies. Voluntary disclosure strategies are most likely to use annual reports and separate reports such as 'stand-alone' social, sustainability or environmental report,² advertisements and brochures,⁶ news media^{3,4,5} and the internet.⁸ They can have a significant and positive consequence on both the company's perception and company's market share.²⁷

Like legitimacy theory, media agenda setting theory plays a significant role in CSR. The main ideology that underpins agenda setting is that media set the agenda for public belief by giving certain issues greater weight than others.³⁴ Agenda-setting theory has been used as a means to investigate the relationship between real-world indicators and media coverage as well as looking at the relationship between the role of media content and public perceptions.³⁵

The media is a powerful source for environmental and social communication. The news media may disclose environmental as well as social activities of companies independently during environmental crises. Companies can use

their media releases to some extent to counter media reports.³⁶ Brown and Deegan³ constructed media agenda setting theory as a means to evaluate the impact of media on environmental disclosure practice. They further demonstrated that media is valuable in driving the public's perception of a particular organization.

Deegan *et al*⁴ also confirmed that companies tend positively to disclose social and environmental information through their annual reports, in response to negative media attention. Similarly, O'Donovan⁹ argued that when it comes to deciding on environmental disclosure in subsequent annual reports, firms do consider newspaper coverage in prior periods. News media perform a dual role for corporate environmental disclosures: they may be used to inform stakeholders about companies' environmental and disclosure strategies and also as a means to respond to issue about companies environmental strategies that have been raised in the media.³⁶

Therefore, with regard to legitimacy theory and media agenda-setting theory, if media coverage impacts the global community for a specific issue it is to be expected that the corporate social disclosure will be directly related to management's perceptions about the concerns of the global community. This is directly linked to the aim of this report, which is to investigate this relationship, that is positive disclosure information in response to negative media and further, to look more closely at the moderating role of beneficiaries on the link between media coverage and fraudulent disclosure practices, in the context of corporate accounting scandals

RESEARCH QUESTIONS

Q1: How have media dealt with the accounting scandals of various institutions?

Q2: How have media treated the individuals involved in accounting scandals?

Q3: What type of beneficiaries moderate the relationship between media coverage and fraudulent disclosure practices?

Q4: Is CSR an appropriate strategy for dealing with accounting scandals of various institutions?

METHODOLOGY

Hypothesis development

According to current theory, the media is regarded as the most powerful source when it comes to shaping the perception of the global community regarding environmental disclosure strategies.

The objective of this report assumes an investigation of fraudulent disclosure practices in CSR. It also examines the moderating role of beneficiaries on the relationship between media coverage and fraudulent disclosure activities. Two hypotheses are therefore proposed:

Hypothesis 1: A higher level of corporate social reporting will be associated with a higher level of fraudulent disclosure practices.

Hypothesis 2: Beneficiaries will moderate the relationship between media coverage and fraudulent disclosure practices.

Variables: In this model (shown in Figure 1) media coverage has been regarded as an independent variable; fraudulent disclosure practices are the dependent variable; and beneficiaries are a moderator.

DATA COLLECTION INSTRUMENT

In order to meet the article's objective, case studies taken from four banks – Daiwa

Figure 1: Proposed model.

Bank, National Australia Bank, Barings Banks and Allied Irish Bank (Allfirst Bank) – were reviewed and considered.

Daiwa Bank

Toshihide Iguchi was appointed to Daiwa Bank in 1976, where he was accountable for trading and for trading's accounting of US government bonds. In 1983, he incurred a loss of \$200 000 on US Treasury bonds, but continued trading in an effort to win back the money. He suffered further losses but hid records and put together counterfeit documents that suggested that the bank possessed securities which he had actually sold. This was the largest trading loss of its kind in history. Toshihide became a head of trading US government bonds operations in 1986, in New York, and in 1993 and again in 1994, the Federal Reserve issued Daiwa with warnings about his poor internal control in both trading and accounting.

On 18 September 1995 Daiwa Bank reported to the Federal Reserve losses of US\$1.1 billion from US treasury bonds in New York, traded by Iguchi. He had covered up these losses for a period of 11 years, successfully keeping them out of the bank's books and outside its financial statements.

This lengthy period of deceit had been managed through the liquidation of securities held in the bank's supervision account and through forgery of its records. On 23 September 1995 an agent of the

Federal Board Reserves interviewed Iguchi at a motel, and later arrested him. Daiwa fired Iguchi on 26 September 1995.

On 2 October 1995 US authorities ordered Daiwa to end all of its trading in the United States. Iguchi was sentenced to four years in prison and a \$2.6 million penalty on December 1996. Daiwa agreed to sell most of its assets and offices in the United States in January 1996. In February of that year, Daiwa agreed to pay a \$340 million fine to avoid further legal punishment. On 20 September 2000 Osaka court declared that some current and some previous board members and executives from the bank would have to pay the bank \$775 million as reimbursement to shareholders.^{37,38}

In 2007 Weston quoted (Time, 1997) that in a later interview Iguchi said 'I traded the same bonds for 12 year. It was pretty simple for management to understand. I had several managers over me who should have understood. But the New York branch depended on me so heavily for profits-we were producing more than half their profits-they wanted to keep their eyes closed and they didn't want to know anything'.

National Australia Bank

In 1998, a team of three dealers in National Australia Bank's (NAB) currency option team was responsible for its losses. In 2001 it increased to four dealers, as Mr Scholes was appointed as executive general manager

for Corporate and Institutional Banking. He shifted the focus of the business to sales to corporate and institutional customers with the goal that income would only be 30 per cent of its total foreign exchange income in the financial year to 30 September 2004.

Throughout September 2001 profits became losses: to cover these losses the team used a range of techniques. They used a 'smoothing' technique; they also used erroneous revaluation rates for speculating the currency options from July 1998. In 2001 and 2002, the value of the currency options book was overvalued by using a gap in the Horizon processing timeline. In 2003 traders were falsifying transactions by exploiting the one-hour window. Price Waterhouse Coopers (PWC) recognized 467 false transactions in 2003. From 24 October 2003 they used options with longer maturities, although one-sided transactions would have to be given up before they matured. In 2003, 78 of these false internal options were identified by PWC. By early 2004 as the traders broadened their deals to take in the \$US/JPY, GBP/\$US and \$NZ/\$US exchanges, yet more losses were concealed. In January 2004 as the US dollar fell against other currencies, losses of \$A30 million and \$A39 million were made. On 13 January 2004 NAB announced a loss of \$A180 million from illegal dealing within its currency options business: on 19 January this loss was marginally adjusted to \$A185 million and on 27 January it was restated as \$A360 million.³⁸

Barings Bank

The collapse of Barings Bank was due to bad financial management practices of Nick Leeson who speculated on the Singapore International Monetary Exchange, typically using futures contracts. In 1989 Leeson was appointed as a settlements clerk in Jakarta. In 1992 Barings offered him a position in Singapore where he would be responsible for setting up a futures trading operation.

His exact responsibilities remained ambiguous, but included inspection for both the back office accounting and control functions as well as for executing clients' orders. From here Leeson's unauthorized trading activities began. Within a year, he passed the exam for trading on Singapore International Monetary Exchange (SIMEX) and thereafter; he was promoted to general manager and head trader. Leeson and his traders performed two types of trading: transacting futures and options orders for clients or for other firms within the Barings organization, and arbitraging price differences between Nikkei futures traded on the SIMEX and Japan's Osaka exchange. Leeson bought the cheap contract and simultaneously sold the expensive one in an act of outright speculation. He took open positions where a buy was not matched with a sell or vice-versa.

In 1992, Leeson established an error account – known as 88888 – to cover up his unauthorized trading activities. He claimed that this account was used to hide some embarrassing losses made by his traders and it was shown as a customer account, not as an error account. He further instructed his clerks not to report the account to London and to hide his activities by manipulating the records.

Selective reporting meant that Leeson posted profits of about \$2 million in 1992 and about \$14 million in 1993. He received a bonus of £36K in 1992, £130K in 1993 and £450K in 1994. There is no proof that Leeson embezzled funds. Rather, at the end of 1992, he had concealed a loss of £2 million: in late 1993 his losses increased by £21 million and in 1994 by a further £185 million. His cumulative loss at the end of 1994 was £208 million.

In 1994 Leeson started to take unauthorized options positions, particularly straddles (a simultaneous sale of a call and a put) on the Tokyo indexes. The risk with this approach was that it led to large losses

if the index fell or rose substantially. On 17 January 1995, an earthquake struck Kobe: the Tokyo stock market fell sharply, and Leeson's option position took losses of about £68 million.

Leeson began to buy stock index futures in an attempt to support the market. His cumulative loss was only £253 million, but then the market started to fall again. He continued to buy more stock index futures. To cover the loss he applied to London for funds using fake justification, and London sent him a total of £742 million in several tranches.

On 23 February 1995 he fled from Singapore: the next day, Barings discovered that Leeson had incurred losses amounting to £927 million, a sum more than double the firm's capital of £440 million. The bank was headed toward bankruptcy and the Bank of England placed Barings into supervision. Eventually ING Bank (International Nederland Group) bought the bank for £1, plus an infusion of £660 million to recapitalize the firm as Baring Asset Management. But it was split and sold by ING (International Nederland Group) to Mass Mutual and Northern Trust in March 2005.^{38,39}

Allied Irish Bank (Allfirst Bank)

In 1993, John Rusnak was appointed as a foreign currency trader in Allfirst Bank in Maryland. Before Rusnak's hiring, the forging exchange trading was limited at bank to providing guidance to bank customers for hedging against currency risk. Allfirst Bank worked for those companies which were overseas trading.

Mr Rusnak traded options in a form of arbitrage, endeavoring to take advantage of price differences between currency options and currency forwards. To execute this strategy, John Rusnak had bought options when they were cheap relative to cash and would sell them when they were expensive. He was trading in spot and forward markets especially in Yens and Euros. Occasionally,

he used complex options: for instance, placing large sum one-way bets that the yen would appreciate in value against the dollar.

Specifically, he bought yen for future delivery, with forward contracts. However, as the yen depreciated, he could not offload his forward contracts, and was forced to take his losses. He did not cover these bets with options contracts, as his core trading belief was that the yen would eventually appreciate against the dollar, as it did from the period of 1990 to 1995. However, from mid-1995 to 1997 the yen was depreciating against the dollar. In April 1997 exchange rates were around 125 yen to the dollar. From 1993 to 1995, John Rusnak worked very well for Allfirst Bank. However, as the yen depreciated, he incurred – and concealed – losses due to his one-sided trading.

He had lost \$104 million through wrong bets in trading at the end of 1997; however, he covered the losses in many ways. He was continuing to report earnings by creating fake option trades. He believed that if he could place one more bet, he could win it all back. He used many complex schemes to hide his losses including 'falsification of documents', 'misuse of office technology' and 'fraudulent entries in accounting systems'.

One of his first techniques for hiding losses was to enter bogus options in the banking system. The purpose of these bogus options was dual. The options appeared to hedge his trades; they also hid the losses with a bogus asset. By the end of his trading day he would enter two fake trades entries. He entered two options that would offset each other. The options had the same premium in same currencies. He used the same strike price but different maturity dates on the options.

The bogus options created another problem. The Treasury back office was responsible for confirming all trades: Allfirst used telephone and fax to do this. Rusnak

created fake trade confirmation documentation on his computer and convinced the back office to accept these documents from him. In 1999, Rusnak had used prime brokerage accounts with several banks, chiefly Bank of America and Citibank that allowed him to conduct currency trades under their names. He conducted dozens of trades, evading disclosure by manipulating the bank's Value at Risk (VaR) calculations.

The VaR shown was \$1.5 million for John Rusnak: in fact, at the end of 1999, he had lost \$90 million. In 2000 he lost another \$207 million in order to avoid detection. Later, to conceal his losses he generated premium income by selling options that he did not enter on the bank's records. In 2001 Rusnak lost \$380 million bringing his total losses to \$691 million. In December 2001 a treasury back office supervisor found two trade documents from Asian trades that had been executed by Rusnak, but did not have attached confirmations as required. The supervisor requested a confirmation of these trades. In late January 2002, the supervisor found that these trades were still not confirmed.

David Cronin, the Allfirst treasurer, reported that Mr Rusnak's use of the balance sheet had risen to \$200 million in January, even though he had instructed that it stay under \$150 million. He also revealed that the foreign exchange trading volume for the bank had been at \$25 billion for the month of December. He decided to check the trading positions of John Rusnak for a month, and the back office demanded confirmation of entries.

Rusnak revived his forged documents file and created false trade confirmations on his computer. When the trade entries were shown to his supervisor, inconsistencies were spotted: further investigation led to Rusnak being charged with seven counts of bank fraud and entering false entries in bank records. He pleaded guilty and was

sentenced to 7½ years in prison and a \$1 million fine.^{40,41}

ANALYSIS AND DISCUSSION

In reviewing these four bank accounting scandals, a number of reasons may be observed as to why and how rogue managers were able to carry on with fraudulent practices in their organizations for so long. These are:

- frauds might occur due to negligence of top management and failure of effective knowledge management;
- there was a lack of segregation of duties and lack of supervision;
- there was insufficient monitoring and control of rogue managers' activities;
- an over-reliance on an intuitive management style by rogue managers and executives influenced by emotions: they want enormous profits and they liked the performance of rogue managers;
- a failure on the part of management to detect deception;
- insufficient information technology system for decision support and detection of fraud;
- no effective system for confirmation of trade entries;
- colleagues and/or senior management had a poor understanding of derivatives.

There are also four factors of beneficiaries' impacts on the interaction between media coverage and fraudulent disclosure practices. These factors are shown in Figure 2.

These four banking case studies demonstrate that it is mostly (middle) managers who committed accounting frauds. Top management, which is strongly motivated to make favorable reports on their results was more likely to be responsible for accounting failures.⁴² The history of corporate accounting scandals has not reflected that these failures are due to excesses of human behavior although there is some evidence that greed has

Figure 2: Beneficiaries impacts on the interaction between media coverage and fraudulent disclosure practices.

become prominent during rapid economic growth, in corporate world.⁴³

The first factor of beneficiaries that impacts on the relationship between media coverage and fraudulent disclosure practices is managers' fault. This is the chief element that underpins unethical practices. Managers are corrupt for reasons of personal greed, even where they are well paid and take bonuses.⁴⁴

The secondary responsibility of financial reporting applies to independent auditors who failed to detect mistakes in financial statements, in large part because they were influenced by the organization's management.⁴² The second factor of beneficiaries that influences the interaction between media coverage and fraudulent disclosure practices is auditor's fault. Auditors omit to disclose the errors in part because of their own carelessness, in part because they have significant trust in their client (for example, Arthur Andersen in the case of Enron: Argenti and Tait⁴⁵) or because of their admiration for a rogue manager (in the case of Barings bank: CNET⁴⁶).

Auditing firms offer both substantial auditing and consulting services to their clients.⁴⁷ The activities of auditors are supervised by the regulatory bodies (for example, ICAC or CNMV in Spain),

analysts and rating agencies and finally media reports on the performance and outlook of companies.⁴⁸ Media plays a watchdog role in bringing critical facts to the public attention⁴⁹ and for guarding the public interest from corruption.⁵⁰

In theory, both advertising and the media promote transparency. Some journalists have even been known to provide transparent information at risk to their own life (see, for example, Parmenio Medina Perez quoted by Peters⁵¹). In addition to direct physical threats against journalists, the media in many countries find themselves hampered by legislation: for instance the laws on libel in many jurisdictions place the view that an official's reputation is creditable above a public right to know.

Close relations between journalists and business are also an issue: an organization's inclination to provide facilities (for example, hotels for press conferences) can impact upon media coverage. For instance, in the case of Enron, close and friendly behavior between journalists and Enron led to uncritical coverage.

The third factor of beneficiaries that impacts on the interaction between media coverage and fraudulent disclosure practices is therefore the journalist's fault. If journalists are to act as watchdog, media

freedom from political intervention is essential.⁵² Countries where government ownership of or intervention in the media is minimal have advanced further in the amount and quality of coverage.⁵¹

The fourth factor of beneficiaries that affects the relationship between media coverage and fraudulent disclosure practices is politicians or other ethnic groups or government that forces media to cover corruption.

These four factors represent personal managerial influences, not a system or process fault.

CORPORATE GOVERNANCE REFORMS

- *For Management*
 - Gatekeepers including professionals like security analysts, security lawyers and debt rating agency should be used to keep managers honest and resist from frauds.⁵³
 - The appointment of high-quality auditors should be higher priority for firms.⁵⁴
 - Advanced information technology tools such as firewalls, virus and password protection should be used to control fraudulent practices.⁵⁵
 - Setting a 'tone at the top' for effective communication of accurate and transparent financial reporting.⁵⁶
 - Management cannot be allowed to influence the process of internal and external auditing.⁵⁶
 - Proper flow of information to board and external parties.⁵⁶
 - Internal control review and continuous improvement should be required as anti-fraud tool.⁵⁵
 - There should be a clear separation of duties as well as clear principles of risk management adopted.⁵⁶
 - According to accounting fraud theory, the balance costs balance and benefits can be changed externally through using

equity markets and internally through monitoring and an effective reward system.⁵⁷

- Companies should promote a corporate culture that adheres to law, with all the employees forced to work under regulatory schemes.⁵³
- A significant number of outsiders on the board will also reduce the chances for fraudulent activities.⁵⁸
- Effective journalists reporting can be an aid to corporate governance reform.⁵³
- Companies should be forced to introduce an auditing qualification in their accounts at the time of quantification.⁴⁸
- *For Auditors*
 - Supervision to ensure the correct application of existing accounting rules.⁴⁸
 - Expertise in detection of fraud.⁵⁶
- *For Journalists*
 - Greater media power and protection to journalists and practitioners who are threatened in respect of their work.⁵²
 - Media should be allowed to gather information from government bodies within reasonable limit as defined by defense and security considerations.⁵²
 - Seminars and training workshops to develop skills against corruption practices in journalists or media practitioners.⁵²
- *For Government or Ethnic Groups*
 - Market deregulation and privatization will make it harder for politicians to use government regulations and state enterprises for their own personal interest.⁵⁹

COMMON REFORMS

1. *Implementation of the Sarbanes-Oxley Act:* Sarbanes-Oxley Act imposed various obligations not only on directors and managers but also on professional gatekeepers like auditors, attorneys and security analysts.⁵³

2. *Increase the penalty on those committing fraud:*
Since 2001 the penalty has significantly increased on those managers who committed frauds in their organizations.⁶⁰
3. *Reduce creative accounting:*
Through creative accounting, management frauds can be hidden and managers deceived. In order to reduce creative accounting, countries such as Spain adapt the regulations of IASB to minimizing the number of treatments allowed.⁴⁸
4. *Ethical education:*
All accounting scandals are due to the responsibilities but they did not fulfill those duties.⁴²

NEED FOR CSR

Corporate governance reforms controlled the fraudulent activities to some extent but they did not fully prevent these practices. The need of CSR still exists. The core of CSR finds its focus around stakeholder theory. Accountability is generally achieved through self-reporting by enterprises.⁶¹ This self-reporting is concerned with national environment, employees and customers.

As the result of legislation and codes of practice, CSR can be done voluntarily.⁶¹ As a means to reduce accounting crises and fraud CSR is likely to prove an effective strategy as research shows that when the firms are faced with crises that threaten their legitimacy they voluntarily disclosed their social and environmental aspects.^{1,2}

CSR not only serves to repair legitimacy but also emphasizes the positive aspects of firm performance.^{1,62,63} For most firms CSR through impression management serves to build or repair their reputation.²⁷ The governance approach for accountability is to allow maximum stakeholder participation in business decision.⁶⁴ CSR should be promoted on voluntarily basis through market incentive and voluntary codes of conduct.⁶⁵

RECOMMENDATIONS

Countries should follow policies which actively encourage implementation of CSR.⁶⁵

1. Companies should make and publish reports about their social, economic and environmental issues and include this information in their annual reports.
2. Law should force companies to report not only on key labor and human rights practices of overseas operation but also report their environmental aspects.
3. Companies should be accountable for directors and shareholders as well as their stakeholders. Directors and shareholders should consult with all stakeholders on company activities and initializing of new projects.
4. Directors and shareholders should take responsibility for the social, economic and environmental aspects of their operation: in conjunction with stakeholders they should take reasonable steps for reducing the negative impact of social, economic and environmental aspects on their operations.
5. Companies should integrate the aspects of corporate accountability and good corporate governance reforms in order to strengthen the corporate disclosure practices.
6. Companies should use ethical and social criteria in government purchases.
7. Governments play an important role in providing financial aid and technical support for the propagation of CSR.

CONCLUSION

Corporate accounting scandals are not the direct consequence of hard economic conditions. They occur when management is poor, in respect of corporate governance, accounting and financial reporting, and where there is a perceived lack of independence on the part of specific audit professionals. Case-study analysis places the

blame for corporate accounting scandals in the hands of individual managers. On the basis of these findings, the relationship between media coverage and fraudulent disclosure practices is unfavorable and moderated by the role of beneficiaries.

Where these factors are well governed, the relationship between media coverage and fraudulent disclosure practices would be favorable. Media provide public awareness in respect of specific environmental issues: failure to do so is a failing on the part of the media and government. CSR is thus a significant aide to legitimacy and as a means to avoid accounting frauds or crises.

FUTURE RESEARCH DIRECTIONS/LIMITATIONS

This is a first step toward examining the impact of media coverage on fraudulent disclosure practices, and therefore a start point for future studies. It outlines the four factors of beneficiaries that impact on the relationship between media coverage and fraudulent disclosure practices. The authors anticipate that if these four factors are well managed, then the interaction between media coverage and fraudulent disclosure would be favorable.

If organizations focused more on CSR then it is likely that accounting scandals would have come to light earlier as opposed to losses being covered up for such a long period. Future studies should investigate this relationship by controlling these four factors.

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