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The Anatomy of Corporate Fraud: A Comparative Analysis of High Profile American and European Corporate Scandals

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Abstract This paper presents a comparative analysis of three American (Enron, WorldCom and HealthSouth) and three European (Parmalat, Royal Ahold and Vivendi Universal) corporate failures. The first part of the analysis is based on a theoretical framework including six areas of ethical climate; tone at the top; bubble economy and market pressure; fraudulent financial reporting; accountability, control, auditing, and governance; and management compensation. The second and third parts consider the analysis of these cases from fraud perspective and in terms of firm-specific characteristics (ownership structure) and environmental context (coverage in media and academic literature, regulatory and corporate governance frameworks). The research analyses shed light on the fact that, despite major differences between Europe and U.S. in terms of political institutions, laws and regulations as well as managerial practices, there are significant similarities between six groups. The analysis also demonstrates that, the ethical dilemma has been coupled with ineffective boards, inefficient corporate governance and control mechanisms, distorted incentive schemes, accounting irregularities, failure of auditors, dominant CEOs, dysfunctional management behavior and the lack of a sound ethical tone at the top. Significant similarities were also observed in the analysis from the fraud triangle perspective. However, there are several major differences between the six corporate failure cases particularly with regard to ownership structure, coverage in media, and legal, regulatory and governance frameworks. This research study may have several academic and practical contributions, particularly because of multidisciplinary, international features, and comparative analyses used in the paper.

Keywords Corporate fraud · Ethics · Europe/U.S. · Accounting · Control · Accountability · Financial scandals · Management compensation · Corporate governance · Management performance · Regulatory framework · Tone at the top · Fraud triangle

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Introduction

Following the series of corporate deviances that began to surface from late 2001–2003, the financial market underwent several high profile financial scandals, management misconduct, frauds and scams as well as many cases of fraudulent financial reporting and audit failure within several large multinational groups around the world. Although not numerous compared to the number of companies publicly listed in the financial markets, they have shaken the foundation of the capital market economy and should have been considered as the warning signals for the subsequent financial crises that the world economy is still experiencing. Coupled with the bubble economy, inefficient control mechanisms, unethical behavior, the misconduct of several managers and the "giant financial-incentive bubble" (Desai 2012, p. 124), the consequences of these financial scandals have significantly contributed to a profound corporate malaise and a mistrusted capital market economy. The recent financial crisis represents the largest manifestation of many of these disruptive factors affecting the smooth running of the financial market.

However, the 'big scandals' such as Enron and WorldCom did not only take place in the United States. Europe has also had its share of corporate scandals and governance failures, which were quite comparable with those of the U.S. in size and importance. In this respect, the strong media coverage of the financial matters and the significant size of the U.S. financial market have been the determinant factors in providing an extensive public discussion on financial scandals in the United States compared to Europe. Evidently, the U.S. cases of financial corporate fraud have been studied extensively in academic and professional journals. However, little attention has been paid to similar cases in other parts of the world including Europe. Indeed, with regard to the known European corporate failure cases there are serious deficiencies as far as academic publications and media coverage are concerned. Cohen et al. (2010) in their study which provides evidence from the press concerning the U.S. corporate frauds and management behavior highlight the importance of the analysis of the European cases of corporate fraud as a further research (p. 289). This shortcoming has also been highlighted in other papers and by regulatory bodies.

On the other hand, the debate in academic literature on high profile fraud mainly concerns accounting misstatements, management behavior, fraudulent financial reporting, and internal control. Rockness and Rockness (2005) have suggested further research exploring the interactions between and within corporate culture, internal control and societal controls (p. 51). Indeed, corporate fraud goes on at a deeper level within the company and the environment in which it operates.

We approach corporate fraud issues from different angle, our aim being to analyze several central topics in the American and European contexts from a broad range of multidisciplinary perspectives including ethics, control environment, accountability, fraudulent financial reporting, management compensation package and environmental factors (bubble economy, law, and regulations). Overall, the paper aims to provide a broad theoretical discussion on high profile scandals in six large multinational groups including three American (Enron, HealthSouth, and WorldCom) and three European corporations (Parmalat, Royal Ahold, and Vivendi Universal).

In line with this goal, this paper aims to respond, in two specific ways, to the need for further research highlighted in previous studies. First, we extend the analysis of corporate fraud to a wide range of topics including, but not limited to managerial behavior, accounting and auditing issues which were mainly considered in previous papers. Second, the paper analyzes also the European context, which compared to the American corporate environment, has not been adequately examined in academic literature. Thus, the study presents also a comparative analysis of corporate fraud in the American and European contexts to identify the common characteristics and differences at corporate (six selected corporate scandals) and environmental (US versus Europe) levels.

The specific characteristics highlighted above provide potential contributions of this research in better understanding of the common causes of corporate fraud and financial failure. In this regard, this research study may have several academic and practical contributions, particularly because of multidisciplinary, international features, and comparative analyses used in the paper.

The paper is organized as follows. After discussing the research motivation and study's contributions, we shall begin with an introduction to our theoretical framework for the study. This includes the literature review regarding the main theoretical topics which will be discussed in the paper. The third section presents research design, the procedure for selecting and the analysis of the sample companies and research questions. This section includes a brief presentation of six selected American and European corporate scandals. Next we will present the results of our analyses by referring to three research questions. Concluding remarks of the study will be provided in the final section.

Research Motivation and Contribution

This paper aims to examine corporate fraud within a broad theoretical framework by using a comparative analysis of several multinational groups. The primary motivation of the study is to analyze the major causes of financial corporate failures. The paper focuses on a comparative analysis of three American (Enron, operating in energy, WorldCom, a telecommunication group and HealthSouth, operating in health care services) and three European corporations (the Italian dairy and foods giant group of Parmalat, the Dutch group of supermarket chain of Royal Ahold and Vivendi Universal, the French media group). A relatively large number of published papers in academic and professional journals (e.g., Arnold and De Lange 2004; Baker and Hayes 2004; Brody et al. 2003; Craig and Amernic 2004; Cullinan 2004; Ferrell and Ferrell 2011; Hogan et al. 2008; Morrison 2004; O'Connell 2004; Rezaee 2005; Reinstein and McMillan 2004; Reinstein and Weirich 2002; Rockness and Rockness 2005; Unerman and O'Dwyer, 2004) and several others mentioned in this paper have discussed the corporate scandals, with special focus on the American companies. Most of these analyses were mainly based on fraudulent financial reporting, earnings management, auditing issues and management misconduct. However, it is believed that accounting, financial reporting and auditing do not operate in a vacuum. They are part of corporate control mechanisms and in that sense may be subject to management choices.

The analyses presented in this paper go beyond the financial reporting, auditing, and specific company characteristics. They aim to provide a broad perspective of corporate issues such as ethical climate, leadership and tone at the top, environmental factors (bubble economy and market pressure), fraudulent financial reporting and earnings management, control mechanisms and auditing, managers' compensation and their personal interests, corporate governance, accountability and risk management involving several American and European companies.

The second main feature of the study is to analyze the six cases of corporate failures from the viewpoint of an extended framework of fraud triangle that we present in this paper. The fraud triangle is part of the auditing standards (AICPA, SAS 99 2002) and has been discussed in auditing and forensic accounting literature (e.g., Littman 2010; Buchholz 2012). Some authors have tried to present a new fraud triangle model (Wolfe and Hermanson 2004; Dorminey et al. 2010) or to couple it with other theoretical framework (e.g., Cohen et al. 2010). Using the six significant cases of corporate financial failures, we have analyzed the fraud triangle in a broader sense by taking into consideration the environmental (e.g., bubble economy and financial market) and regulatory context as well as the ethical climate. This approach suggests a critical analysis towards the fraud triangle and sheds light on its shortcomings as we believe that the current fraud triangle model does not provide an adequate basis for corporate fraud analysis.

The third motivation of the paper is to investigate corporate fraud from the viewpoint of company-specific characteristics and the environmental factors (ownership structure, coverage in media and academic literature, legal and regulatory framework and corporate governance codes). Coffee (2005) studied the U.S. and the European corporate frauds from the viewpoint of the level of public and private enforcements and mainly with regard to the dispersed ownership versus concentrated ownership systems. Our analysis goes beyond the system of corporate ownership. It will aim to show the differences arising from the environmental context and regulatory frameworks, the topic which has not, to our knowledge, been studied in previous research.

The aforementioned specific characteristics of this study provide potential contributions in better understanding of the root causes of corporate fraud and financial failure. In summary, the contribution of the paper is threefold. First, the paper provides an in-depth analysis of the common characteristics of corporate debacles covering the areas of ethics, management behavior, corporate fraud, accounting, financial reporting and auditing, control mechanisms, tone at the top and leadership, management incentives and compensation package, corporate governance, accountability as well as considering the environmental factors. This should have the practical implications for regulatory bodies seeking to reinforce the oversight mechanisms in the financial market. Second, the paper provides the opportunity to undertake a comparative analysis of the American and the European corporate failures considering the firm-specific characteristics, the legal and regulatory frameworks and fraud triangle. Above all, as this study covers a large number of literature review regarding the above topics, it contributes to the academic literature in corporate ethics, forensic accounting and corporate financial scandals.

The Theoretical Framework: Corporate Fraud and Its Possible Causes

In line with the objectives outlined in this paper and having reviewed a wide range of published literature and based on our conceptual analysis, we have identified several areas which can be considered as the possible causes of corporate financial scandals. We will first set up a theoretical framework including a broad range of concepts. The latter may be considered as the major causes of corporate failures in general and particularly of those six corporations selected for the purpose of this study. We have classified these issues into the six following categories which will then be discussed. There are certainly interrelationships between these core areas which will be highlighted in the discussion.

1. Corporate ethical climate and management misconduct
2. Tone at the top and executive leadership
3. Environmental factors including bubble economy and market pressure
4. Accountability, control mechanisms, auditing, and corporate governance
5. Executive personal interest, compensation package and bonus
6. Fraud, fraudulent financial reporting and earnings management

These six core concepts are presented in Fig. 1 which shows our theoretical framework for the first and second parts of our analyses regarding the common features of high profile American and European corporate scandals as well as their differences.

Ethical Climate

There has been concern about ethics of organizations and ethical behavior in recent years in the capital market and this issue becomes the main focus of the regulatory bodies (Kaptein 2010). However, given the preponderance of unethical behavior sweeping corporations, the concerns on corporate behavior cannot be limited to fraudulent actions committed by a few individuals. This issue should be

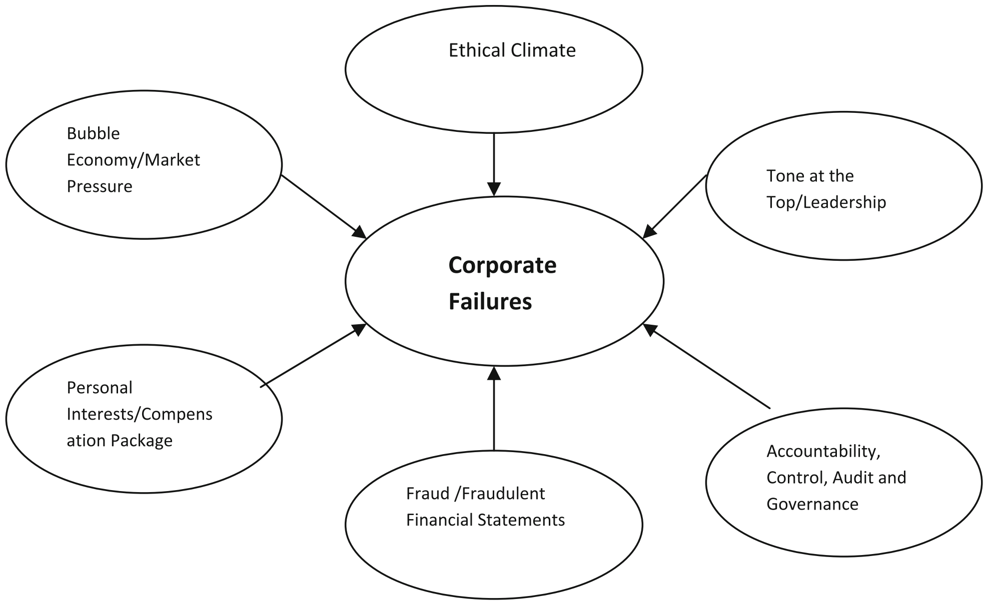

Fig. 1 Theoretical framework indicating the possible major causes of corporate failures

examined in broader terms and at an organizational level. Rather than considering the managers as the economic actors in the financial market, it is more appropriate to examine their role in the light of the commitments that they have towards their corporations and the parties involved in the organization.

In this study, we aim to discuss the organizational ethical climate and the Ethical Climate Theory (ECT) as one of the main theoretical topics in discussing managers' behavior and corporate wrongdoings. The concept of ethical climate is a multidimensional construct which concerns the ethical culture, tone at the top and ethical leadership. Trevino and Weaver (2003) defined ethical culture as those aspects that stimulate ethical conduct whereas according to Brown et al. (2005) ethical leadership is usually defined "as the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (see Bédard 2011, p. 1226).

Climate in an organization is defined as perceptions of organizational practices and procedures that are shared among members (Schneider 1975). Martin and Cullen (2006) stated that there are various types of climates in the workplace and one of them is the ethical climate, which is related to the established normative systems of organization. Conceptually, ethical climate is a type of organizational work climate (p. 176) and in that sense, it is understood as a group of prescriptive climates reflecting the organizational procedures, polices, and practices with moral consequences (p. 177).

The idea of ethical climate has been driven from the theory of ethical work climate developed by Victor and Cullen (1987, 1988). Victor and Cullen (1988) noted that "the prevailing perceptions of typical organizational practices and procedures that have ethical content constitute the ethical work climate." (p. 101). Thus, from the viewpoint of Victor and Cullen (1988), ethical climates within organization identify the normative systems that guide organizational decision-making and the systematic responses to ethical dilemmas (p 123). As such, ethical climate is one component of the organizational culture (Cullen et al. 1989). The study of Victor and Cullen (1988) is an innovative piece of literature as they tried to employ both organization and economic theory to propose an ECT. In their views, "ethical climate theory brings ethical content into the mainstream of organization theory" (p. 123).

ECT has been examined in several other studies (Arnaud 2006; Martin and Cullen 2006; Wimbush et al. 1997) which provide evidence of the relationship between ethical climate perceptions, individual ethical behavior, and individual-level work outcome. Wimbush and Shepard (1994) and Bulutlar and Öz (2009) attempted to show the conceptual relationship between ethical climate and ethical (or unethical) behavior in organizations particularly with regard to supervisory influence and the behavior of subordinates.

Several other research papers considered ethical climate in relationship with topics relevant to this study. Murphy et al. (2012) examined the role of ethical climate within organizations when fraud is present. Using the appropriate measures capturing motives, attitudes, and rationalization for fraud, they showed that ethical climate plays a significant role when fraud is present within an organization. It is associated with motives such as pressure from bosses and rationalizations such as "the organization is to blame for my fraud" (p. 19). Shin (2012) conducted firm-level analyses regarding the relationship between CEO ethical leadership and ethical climate. The overall outcome of the study showed that CEOs' self-rated ethical leadership was positively associated with employees' aggregated perceptions of the ethical climate of the firm. Duh et al. (2010) discussed the importance of core values, culture and ethical climate in the context of family versus non-family businesses. The authors concluded that family as well as non-family enterprises maintain positive attitudes towards the core values with ethical content. However, with respect to the type of enterprise culture, the results of this study demonstrated a stronger presence of *clan*[1] culture characteristics in family than in non-family enterprises (e.g., Parmalat, Royal Ahold, and HealthSouth). In contrast, non-family enterprises benefit from a stronger presence of hierarchical and market culture characteristics compared to family ownership. Brower and Shrader (2000) observed a high degree of egoism in profit making companies.

Ethical culture within an organization may also have a relationship with management perception and the way they exercise their power. When power is used as the central explanatory concept, it becomes both a means and an end and this may lead to organizational deviance (Vaughan 1999). This may be a source of managerial misconduct.

Using a survey study, Kaptein (2010) raises that question of whether the ethics of organizations has improved in recent years. He claimed that the ethical culture of organizations improved in the period between 1999 and 2004. Between 2004 and 2008, however, unethical behavior and its consequences declined and the scope of ethics programs expanded.

There is no single type of work climate or any clear-cut criteria to evaluate the ethical climate. Ethical climate affects a broad range of management decisions. At the same time, CEO ethical leadership may be an important factor affecting the ethical organizational climate and ethical culture (Reed et al. 2011).

In our analyses of six American and European corporate scandals, we will take an interest in the overall ethical climate and the aggregated perceptions of organizational conventions and organizational norms which have been implemented within corporations in terms of ethics and code of conduct, committee of ethics, management and subordinate relationship, reward and control, working conditions, the dysfunctional behavior of managers, the moral behavior of managers and the moral atmosphere. To what extent have normative systems of ethics been institutionalized in the organization?

Tone at the Top and Executive Leadership

'Tone at the top' is the manner in which the company's board of directors, senior management and CEO perceive their responsibilities in setting the tone of an organization. The organization in turn influences the control consciousness of the employees. These topics are among the six central themes that we analyze in this study. The CEOs set by their words and deeds the ethical tone for the organizations. All those who are involved in the firm look to the top for guidance (Schwartz et al. 2005; Schroeder 2002). According to Hambrick (2007) if we want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors—their top executives. For this reason, the discussion on the concept of the tone at the top can be directly relevant to ethical climate and ethical behavior (Wimbush and Shepard 1994) as well as executive leadership and CEO ethical leadership (Reed et al. 2011; Shin 2012).

The tone at the top is established by upper management. It reflects a supportive attitude towards the control of the organization's environment at all times, encompassing independence, competence and leadership by implementing an appropriate ethical code of conduct within an organization. The commitment, the involvement and support of a company's top management in setting the tone at the top contribute to increasing a positive attitude among a company's personnel. It is essential for maintaining an efficient internal control system. Management's policies, procedures and practices should promote orderly, ethical, economical, efficient, and effective conduct.

The issue of tone at the top was initially discussed in the context of financial reporting in 1987 by the National Commission on Fraudulent Reporting-Treadway Commission. The Commission stated that "tone set by top management—the corporate environment or culture within which financial reporting occurs—is the most important factor contributing to the integrity of the financial reporting process." It was one of three key elements the Commission identified "within the company of overriding importance in preventing fraudulent financial reporting" with the other two being internal audit and audit functions and the audit committee (p. 11). Since that time, the concept of tone at the top has been integrated into the Committee of Sponsoring Organizations (COSO) internal control framework. The COSO recommendation (2004) emphasized the importance of the concept of 'the tone at the top' or the 'control environment', the tone set by top management that influences the corporate environment. Similarly, the

[1] Emphases are ours.

PCAOB (2007) emphasized the importance of tone at the top in the auditor's evaluation of internal control over financial reporting.

In professional accounting literature, this concept is mostly used in the context of internal control over financial reporting and auditing emphasizing its importance in preventing fraudulent financial reporting (Hermanson et al. 2008; Lamberton et al. 2005). Similarly, several research papers (e.g., Doyle et al. 2007; Ashbaugh-Skaife et al. 2008) found a positive association between the strength of an internal control system and earnings quality. Hunton et al. (2011) studied the relationship between the effectiveness of an organization's internal control system and the quality of its reported earnings. The authors stated that 'tone at the top' perceptions are significantly associated with board of directors, CEO age, and CEO compensation and have positive effect on earnings quality. However, the authors acknowledge that the financial internal control is a subjective aspect of the control environment, perceived tone at the top (p. 1217). In this respect, Bédard (2011) in his discussion on the paper of Hunton et al. (2011) actually refers to these shortcomings. He suggests further research on developing and validating a more complex and precise measure of tone at the top (p. 1226).

Indeed, the framework of control environment (tone at the top) is much broader than the internal control and it is not limited to financial reporting. It sets the tone of an organization, influencing the control consciousness of its people (COSO 2004, p. 2). It derives much of its strength from the tone established by the company's board and executives. "Control environment factors include the *integrity*, *ethical values* and *competence* of the entity's people; *management's philosophy* and *operating cycle*; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors (COSO 2004, p. 2).[2]

The CEO is responsible for setting 'the tone at the top' and the board of directors is in charge of overseeing his/her actions to make sure that a strong tone at the top pervades the organization. However, the personal values of board members and particularly the CEO who has the ultimate responsibility in decision-making and in defining the characteristics of control environment are the determinant factors in setting the 'tone at the top'. As stated by Schwartz et al. (2005), "The tone at the top that they set by example and action is central to the overall ethical environment of their firms" (p. 79). In their critical analysis of recent U.S. corporate scandals, the authors described key components of a framework for a code of ethics for corporate boards and individual directors including six universal core ethical values (honesty, integrity, loyalty, responsibility, fairness, and citizenship).

The management literature also provides evidence that a CEO ethical leadership and CEO's values will be reflected in her behavior, which will shape corporate culture, and affect the attitudes and behavior of other members of the organization (Berson et al. 2008). Reed et al. (2011) argued that values, beliefs, and actions of 'upper echelon' managers have significant influence on the culture and climate of the organizations they lead, as well as on the behavior of organizational members. Shin (2012) found a positive relationship between CEOs' self-rated ethical leadership and employees' aggregated perceptions of the ethical climate in South Korea. Reed et al. (2011) stated that servant leadership (those who intend to serve the employees and organization) is more based on the criteria such as moral, emotional and relational dimensions of ethical leadership behaviors than competency and performance. They went on to say it "may be an effective means to creating ethical organizational climate and ethical culture" (p. 421). Similarly, Graham (1995) argues that top management who serve the goal of organization and the interests of followers (employees) encourages their development so that they can function with enhanced moral reasoning and become autonomous moral agents.

Bubble Economy and Market Pressure

Peter Holgate, the head technical partner at PricewaterhouseCoopers in London, asks "how it is that corporate earnings move upwards in a straight line while the drivers of those results—consumer demand, stock markets, interest rates and foreign exchange rates—bump around much more unevenly." (*The Economist*, April 24, 2003). The answer may be found in a significant gap between the performance of the real economy and the capital market economy. Soltani (2007) stated that as share prices soared in the bubble economy, people pointed to the growing gap between the book value of companies (what appeared in their accounts) and their market capitalization (value on stock exchanges) as evidence of the irrelevance of accounts.

In a disordered and inefficient financial market resulting from the bubble economy, there would be naturally the strong effect of market pressure tied to the desire of management of some publicly listed companies to satisfy the unrealistic expectation of investors and analysts. The bubble economy and artificially smoothed earnings have also had significant influence on the performance and quality of work performed by the intermediary parties such as financial analysts and external auditors. Recent auditors' failures in several corporate scandals show that auditor performance and audit quality is sensitive to management

[2] Ibid.

earnings behavior which is, in turn, affected by financial market conditions. Accounting standards based on historical values may have been a source of misrepresentation of financial information about companies listed on financial markets, as in most cases there is virtually no relationship between the reported earnings[3] and operating earnings.[4]

Similarly the corporate governance and audit committee in several cases of financial failures were not capable of taking immediate preventive measures by giving warning signals to market participants. The reason for this is that they were either misled by company's market performance or they did not function properly. "As the bubble economy encouraged corporate management to adopt increasingly creative accounting practices to deliver the kind of predictable and robust earnings and revenue growth demanded by investors, governance fell by the wayside. All too often, those whose mandate was to act as a gatekeeper were tempted by misguided compensation polices to forfeit their autonomy and independence" (American Assembly Report 2003, p. 5).

The accounting standards in several cases are also inadequate and did not contribute to mitigate the effects that the bubble economy may have on financial statements. On several occasions, the management of high profile corporate scandals appears to have engaged in a number of accounting treatments that while technically acceptable, are arguably unrealistic or unethical.

There is also an interrelationship between a bubble economy and a financial-incentive bubble and the use of financial markets-based compensation at large corporations and investment banks. It is evident that when there is a strong relationship between incentives and rewards of top management and major investors on one hand and the factors such as corporate performance, the appetite for risk, and excess returns on the other, this would have effect on capital market functioning. The efficient allocation of resources and the evaluation of risk and return should be based on some rational criteria such as the favorable outcome for all market participants and not minority groups of interest. Desai (2012) argued that "When risk is repeatedly mispriced because investors enjoy skewed incentive schemes, financial capital is being misallocated. When managers undertake unwise investments or mergers in order to meet expectations that will trigger large compensation packages, real capital is being misallocated" (p. 133).

Accountability, Control Mechanisms, Auditing, and Governance

With the development of the modern corporation, owners have delegated a significant part of their powers to management within the corporation. Modern corporate systems are strongly characterized by the separation of ownership and control which has been a significant issue in the organizational theory. The idea of the separation of ownership and control dates back at least to Berle and Means (1932).[5] They were among the first scholars to look at the inconsistency of interest between managers and stockholders. They emphasized the cost these conflicts generate.

The separation of owners from managers reinforces the need for a number of control instruments which comprise mechanisms that ensure efficient decision-making, and maximizing the value of the company. Traditionally, these mechanisms are included in the company's structure (internal control and internal audit). Besides that, in order to ensure the owners on efficient functioning of internal control mechanisms and on reliability of financial information provided by management, the owners can rely on independent auditors. The auditors may also contribute to reducing the information asymmetry between the owners (principal) and managers (agent) as the former cannot verify the action of the agent.

The recent financial crises provide evidence of significant 'expectation gap' between various groups of stakeholders and management, leading to a lack of public confidence in the usefulness and the quality of financial reporting and efficiency of control mechanisms within corporations. The major criticisms concern widespread corporate management abuse, lack of efficient internal control mechanisms within corporations, lack of sufficient independence, integrity and objectivity among external auditors, insufficient oversight exercised by regulatory agencies and, ineffective corporate governance structure and non-executive directors. An appropriate response to these criticisms can be found in accountability and having the possibility to question the stewardship abilities of management, their willingness to implement effective control mechanisms, a high level of transparency and

[3] Reported earnings include all charges except those related to discontinued operations, the impact of cumulative accounting changes, and extraordinary items, as defined by accounting standards.

[4] The measure of operating earnings focuses on the earnings from a company's principal operations, with the goal of making the numbers comparable across different time periods. The use of this measure seems to come from internal management controls used when a business unit manager is not responsible for managing corporate level costs.

[5] Berle and Means were the first to raise this issue, relating it to the shift from an economy based on relatively small enterprises, owned and managed by individuals or small groups of individuals, to one dominated by large, multi-unit enterprises whose shareholdings are widely dispersed and whose shareholders are no longer likely to be in control. According to this approach, company owners, by surrendering control and responsibility over their properties, have surrendered the right to have the corporation operated in their sole interest.

quality of financial reporting, as well as an effective cooperation with external auditors and corporate governance structure. An effective coordination and communicative interaction between the parties involved would contribute to company's performance.

Accountability in organizations may be defined as the perceived need to justify or defend a decision or action to some audience which has potential reward and sanction power, and where such rewards and sanctions are perceived as contingent on accountability conditions (Frink and Klimoski 1998). Accountability is a core concept widely used in the literature on public administration (e.g. Hall 2012; Koppell 2005; McMahon 1995). Koppell (2005) proposed a five-part typology of accountability conceptions: transparency, liability, controllability, responsibility, and responsiveness. It also concerns the individuals' perceptions and feelings about their own levels of accountability, and the degree to which they will be required to answer for others (Royle and Hall 2012). McClelland (1961) stated that individuals are motivated by three basic drivers: needs for power, achievement, and affiliation. In that sense, accountability has a direct link with power, performance, and responsibility.

At corporate level, the accountability concept concerns the management perception, the performance and the effectiveness of formal and informal mechanisms that are implemented within an organization to respond to shareholders. "After all, it is only accountability that legitimizes the exercise of any power; because it is the only way to ensure that the power which has been delegated is not abused – that any conflicts of interest that arise between those who delegate the power and those who exercise it are properly resolved" (Monks 1993, p. 167).

The high profile lapses of accountability have been observed in recent financial scandals. Benediktsson (2010) investigated the cases of several large U.S. accounting scandals from the viewpoint of the information coverage of accountability of board members in the media. The author stated that "many corporate boards served their connections to malfeasant executives, forcing them to stand trial alone. In doing so, they redirected public attention away from organizational wrongdoing and toward individual wrongdoing". (p. 2207).

Accountability has also direct link with corporate governance structure which is the system by which organizations are governed and controlled. Indeed, as stated by Soltani (2007, p. 72), corporate governance structure attempts to solve the central economic and policy problem of the allocation of power. It also controls the rights of parties who have the incentives and the information they need to use resources efficiently to create wealth for corporations. Besides that, conventional wisdom suggests that corporate management must be held accountable to ownership, that the directors and officers must be responsible to the shareholders and that this accountability system sufficiently limits corporate power so as to make it tolerable in a capital market economy.

The topics of accountability, control mechanisms, financial reporting, auditing, and governance are interrelated. On one hand, the efficiency of corporate governance depends, to a great extent, on the effectiveness of internal control and internal auditing systems, candid disclosure of a company's financial and business activities and the mechanisms of accountability and stewardship. On the other hand, the implementation of corporate governance should ensure that the controlling parties are accountable to all other participants who have investments at risk. As stated by Greiling and Spraul (2010), this point highlights the importance of information disclosure in accountability arrangements.

Executive Personal Interest, Compensation Package and Bonus

The issue of compensation package of senior executives and the link between the company's performance and their personal interests and remunerations have been largely debated in the public media and academic literature. Management incentives involves the ethical considerations (Moriarty 2009, 2011; Kolb 2011; Angel and McCabe 2008; Micewski and Troy 2007). There is also a relationship between executive compensation, earnings management, and fraud (Persons 2006; Jones and Wu 2010). The importance of these issues becomes more significant since there may be a missing link between corporate performance measurement systems and CEO incentive and compensation plans (Dossi et al. 2010).

The recent corporate financial failures reveal that despite huge falls in companies' share values, certain board members have attributed a large part of corporate funds to themselves in the form of salary, bonus, and stock options. The question of whether the substantial remuneration of CEOs or board members is based on criteria such as performance, merit, skill, and competence or is a product of 'give-and-take' and arm's length negotiation between management and shareholders requires more in-depth study. Whether the use of financial markets-based compensation which has direct relationship with earnings management and quality of earnings is the best rewarding policy in publicly listed companies? How would be possible to disentangle skill and merit from luck and opportunity in corporate management evaluation? The discussion on these important issues goes beyond the scope of this paper. However, there is a clear evidence that the implementation of distorted incentives' policy in some corporations coupled with management abuse and fraudulent financial reporting have been accompanied by a severe decline in public trust, which could take many years to restore. Desai (2012) argues that financial-incentive bubble is an integrated part of the capital market economy and is also one of the causes of bubble economy. He stated that "in 1990 the equity-based share of total compensation for senior managers of U.S. corporations was 20 %. By 2007 it had risen to 70 %" (p. 124).

Similar to other economic agents, management is willing to maximize its remunerations and incentives. This may also be related to *egoism* which applies to behavior concerned first and foremost with self-interest and a self-interest maximizing behavior although this notion was used in the context of an organization (Victor and Cullen 1988; Martin and Cullen 2006). In the context of the theory of ethical decision-making and deontological ethics, Micewski and Troy (2007) explored the concept of 'moral duty' as transcending mere gain and profit maximization. The authors noted that "widely used compensation schemes may have the tendency to fuel unethical behavior" (p. 17).

From the perspective of business ethics deriving from the fiduciaries role of top executives, Moriarty (2009) argued that CEOs have a moral obligation to reject excessive compensation from the corporation they are in charge of. It should even be the case when such compensation is the outcome of an entirely arm's length negotiation and even when it is freely offered by the corporation, without any undue influence from the CEO receiving the compensation. Moriarty stated that "the executive's duty not to accept excessive pay [seems] more salient" than any similar duty that might be had by other fiduciaries, because "what the CEO is charged with promoting for those for whom he is a fiduciary is the same as what he is paid, viz., money" (Moriarty 2009, p. 239). In his commentary in response to Kolb (2011), Moriarty (2011) emphasized that CEOs have a duty to limit the amount of compensation they accept from their firms. He claimed that "CEOs should accept no more than the minimum necessary to attract, retain, and motivate them, what he called their minimum effective compensation, or MEC" (p. 686). Kolb (2011) rejected this argument on the grounds that the fiduciary duties are moral in character and not necessarily codified in law. He believed that CEOs cannot be subject to fiduciary duty since the board of directors sets the CEO's pay, so determining the level of her own pay is not a function of the CEO *qua* CEO (p. 681). However, in many cases, due to a close relationship between the CEO and board of directors and an ineffective corporate governance structure and the remuneration committee, the CEO has significant power in the company in setting his/her own remuneration and bonuses.

The issues of management incentives and their personal interests can also be discussed in the context of temptations to manage earnings and aggressive earnings management in relationship with market expectations. Incentives to manipulate earnings for the purpose of enhancing earnings-based compensations are important issues in corporate governance and accounting literature (Huson et al. 2012). In the capital market economy, the good performance and successful outcome of corporations depends, quite naturally, on achieving earnings targets. As stated by Micewski and Troy (2007), "on the one hand, earnings targets should motivate management to conduct business affairs so that earnings goals can be achieved. On the other hand, reaching earnings targets at all costs can result in behavior where the use of any means anticipated to help in achieving this goal is considered to be justified" (p. 18). Above all, the direct relationship between the company's market performance and the management incentives and compensation package may generate another type of conflict in terms of management–owner relationships based on trust ad faithfulness. It may be argued that "a financial markets-based compensation seeks to align the interests of managers with those of shareholders and to reward the former in a way that is commensurate with their performance" (Desai 2012, pp. 126–127).

The executives' compensation and their personal interests may also have a significant impact on corporate reporting and the likelihood of fraudulent financial reporting. The potential for earnings management and executive compensations are important areas of discussion in corporate fraud (Jones and Wu 2010; Persons 2006). Management has a dominant position in the company's structure, and based on its motivation and incentives, it possesses a unique ability to perpetrate fraud by manipulating accounting records and presenting fraudulent financial information. Fraudulent financial reporting often involves management overriding of controls that otherwise may appear to be operating effectively. The high remuneration and compensation package is one of the issues defined as perceived incentives in the fraud triangle framework which will be discussed in the next section.

Fraud Triangle Framework and Fraudulent Financial Reporting

The corporate scandals involve different types of frauds and scams. Fraud can range from minor employee theft and unproductive behavior to misappropriation of assets, company's funds and fraudulent financial reporting. However, because of the significant effects of fraudulent actions on a company's financial position and results, the analysis of corporate fraud is usually presented in literature from the perspective of accounting fraud and fraudulent financial statements. "Traditional accounting fraud is the intentional misrepresentation of financial statements, punishable criminally or civilly, in order to obtain an advantage wrongfully, retain a benefit, or avoid a detriment (also known as financial statement fraud" (Shapiro 2011, p. 61).

The corporate fraud is extensively discussed in accounting and auditing literature but a major part of the analyses are based on the concept of fraud triangle as defined in SAS No. 99 (AICPA 2002, Para. 5) "fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit." The concept of a fraud triangle dates back to the seminal work of the criminologist and sociologist Edwin Sutherland (1939) and Donald Cressey (1973). In his major book, Sutherland (1949) coined the term 'white-collar crime' and analyzed the crimes committed by American corporations and executives. He defined such a crime as one "committed by a person of respectability and high social status in the course of his occupation" (Sutherland 1949). According to Sutherland, "crime is often committed by persons operating through large and powerful organizations and has a greatly-underestimated impact upon our society" (Strader 2002, p. 1).

The studies of Donald Cressey, a PhD student of Sutherland were mainly focused on embezzlement and embezzlers and on the circumstances that led fraudsters to commit fraud and violate ethical standards. He discussed three conditions of motivation or pressure, opportunity and rationalization, each of which is present when occupational fraud takes place.

Over the years, these research findings were used in defining the fraud triangle which becomes an integral part of ISA 240 of IFAC, SAS 99, and PCAOB-AU Section 316.[6] Figure 2 presents the general framework of fraud triangle. This involves *incentive* or *pressure* to commit fraud, a perceived *opportunity* to do so and some *rationalization* of the act which are commonly referred to as 'means, motives and opportunity'. These elements are influenced by the fraud perpetrators' psychology. As noted by Ramamoorti, "after all, personal incentives and perceived pressure drive human behavior, and the need to rationalize wrongdoing as being somehow defensible is very much psychologically rooted in the notion of cognitive dissonance" (2008, p. 525).

Firstly, *incentive or pressure*, which provides a reason to commit fraud, includes an excessive pressure on management to meet financial targets regarding sales or profitability and overly optimistic press releases or annual report messages. Secondly, the absence of controls, ineffective controls, or the ability of management to override controls provide an *opportunity* for fraud. This may be directly related to an ineffective monitoring of management because they have a dominant position, or may be due to an ineffective board of directors or audit committee oversight of financial reporting and internal control. Thirdly, some individuals possess an *attitude*, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act. The greater the incentive or pressure, the more likely an individual will be able to *rationalize* fraud.

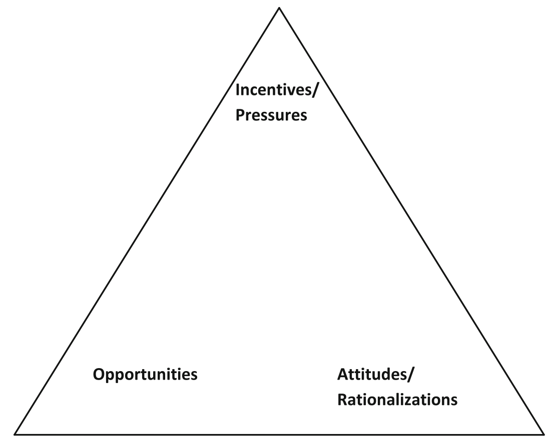

Fig. 2 Fraud triangle framework

A number of research papers have used the fraud triangle. Cohen et al. (2010) included the theory of planned behavior to the notion of fraud triangle in order to analyze the corporate fraud cases released in the press. They emphasized the importance of personality traits in corporate fraud and suggested that auditors should take a strong interest in the behavior and attitudes of managers when assessing risk and detecting fraud. Hogan et al. (2008) presented an extensive review literature and discussed emerging issues in fraud research by presenting research findings related to the fraud triangle. A number of papers revisit the fraud triangle and the evolution of fraud theory for use in accounting instruction (e.g., Dorminey et al. 2012; Ramamoorti 2008). Some authors tried to present a different approach to fraud triangle by referring to its weaknesses (e.g., Buchholz 2012; Dorminey et al. 2010; Wolfe and Hermanson 2004).

Several writers have criticized the statement that "the triangle alone is an adequate tool for deterring, preventing, and detecting fraud because two of the characteristics of pressure and rationalization-cannot be observed "...All the predator seeks is an opportunity. The predator requires no pressure and needs no rationalization" (Dorminey et al. 2010, pp. 20–21). By referring to the shortcomings of the fraud triangle framework, Brody et al. (2011) emphasized the importance of behavioral considerations. The authors stated that auditors' brainstorming for the purpose of detecting fraud requires an understanding of the behavioral

[6] See Soltani (2007) for discussion on ISA 240 of IFAC, 2007 and PCAOB-AU Section 316 and these three conditions including several examples of each one.

component of fraud offenders (p. 522). Similarly, Ramamoorti (2008) stated that fraud is a human endeavor, and it is important to understand the psychological factors, including personality that might influence the fraud offender's behavior. Littman (2010) criticized the auditors' evaluation process of the risks associated with the company's activities and financial statements and the framework of fraud triangle used by them.

For the purpose of this study, based on our conceptual analysis of financial fraud we use a modified approach of fraud triangle as presented below. We believe that, besides the above comments, the fraud triangle framework has several major deficiencies: firstly, the analysis of this framework should be performed by taking into account the characteristics of control environment (ethical tone at the top) in a broader sense. Secondly, because of the strong impact of laws and regulations on corporate functioning and management decision-making, it is imperative to consider the fraud triangle analysis in the regulatory context. Thirdly, the analysis of corporate fraud should be made in conjunction with organizational ethical climate. Figure 3 below presents our modified framework for fraud triangle that we use in this study.

Research Methodology

Having reviewed a large number of research papers presented in the previous sections, we identified six areas upon which we analyzed six selected American and European corporate scandals. The analysis of case studies was based on reading the stories and historical backgrounds of corporations published in their annual reports, reports of regulatory bodies (SEC and national regulators), professional and academic literature, and newspapers.

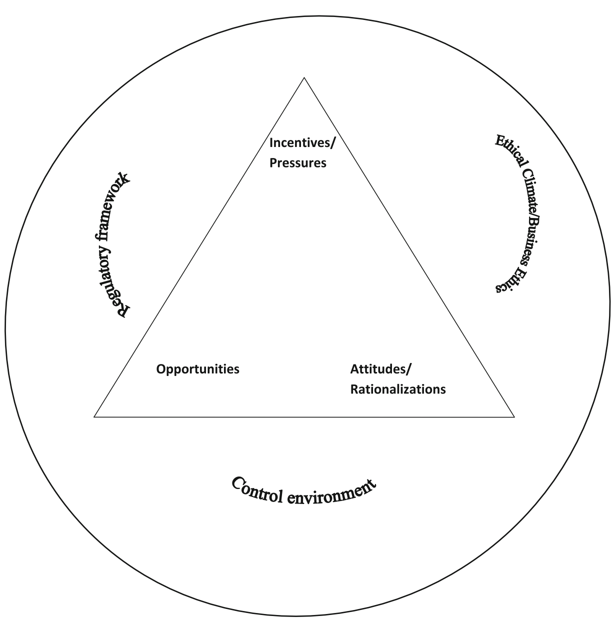

Fig. 3 Modified approach of fraud triangle used in this study

Research Questions

Based on the objectives outlined in the introduction of this paper and the theoretical framework built upon the literature review, we will examine the following three research questions (RQ). The first two questions (RQ1 and RQ2) aim to shed light on major factors causing corporate fraud, their similarities and differences. RQ3 examines the differences between six groups particularly with regard to the specific characteristics of companies and the environmental effects.

RQ1 What are the common characteristics of six American and European corporate scandals in the areas of (1) ethical climate, (2) tone at the top and executive leadership, (3) bubble economy and market pressure, (4) accountability, control, auditing and governance, and (5) executive personal interests and compensation package.

RQ2 What are the major similarities and differences between the American and the European corporate failures from the fraud triangle perspective taking into account the ethical climate, control environment, and regulatory framework?

RQ3 What are the major differences between six American and European corporate scandals particularly with regard to the specific characteristics of the firm and the environmental factors (ownership structure, coverage in media and academic literature, legal and regulatory frameworks and corporate governance codes)?

Sample Companies and Criteria for Selection

We have equally selected three high profile corporate scandals in Europe and three in the United States. This choice is based on the following criteria:

- They all occurred within the same period (2001–2003);
- Historically, the six cases are among the largest high profile financial failures at international level;
- The selected groups are relatively comparable in terms of capitalization, assets, and revenues;
- The three European groups (Parmalat, Royal Ahold, and Vivendi) have significant commercial operations and a strong presence in the United States;
- The European groups (Ahold and Vivendi) were also listed on the New York Stock Exchange and for this reason they were subject to similar rules and regulations and accounting standards;

- The six corporate scandals functioned as activating factors pushing the regulators in Europe (at national and European Commission levels) and the United States to implement the new measures (e.g., SOX in 2002 and EU directives in 2003).
- The selected cases of corporate scandals involve various failures but of similar nature regarding business ethics, management by manipulation, control environment, executive incentive and compensation, fraudulent financial reporting, control mechanisms, auditing and corporate governance, mergers and acquisitions, strategy of expansion and internationalization.

Brief Presentation of Corporate Failures of Six Groups

The following section presents a brief summary of historical background and events regarding the six high profile American (Enron, WorldCom and HealthSouth) and European (Parmalat, Royal Ahold, and Vivendi Universal) financial failures discussed in this paper.[7]

Enron and Arthur Andersen Affair

The Enron–Andersen story ignited the issue of corporate accountability in the United States. At one time, Enron was the seventh largest company by revenues in the U.S. and was often touted as being an innovative marketer of natural gas and electricity. On December 31, 2000, Enron's market value was $75.2 billion, while its book value (balance sheet equity) was $11.5 billion. On October 16, 2001, Enron produced figures that revealed glaring accounting malpractices.

Enron's November 8, 2001, Form 8-K filing reported that it intended to restate previously issued financial statements that dated back as far as 1997. It also disclosed that Enron should have consolidated three previously unconsolidated 'Special Purpose Entities', (SPEs) not included in Enron's consolidated financial statements. Enron announced that the company and its auditor had determined that certain off-balance sheet entities (primarily a special purpose entity named Chewco) should have been consolidated in accordance with GAAP. A second questionable accounting transaction was the improper recording of a note receivable from Enron's equity partners in various limited partnerships.

The Enron's financial failure also raises a number of questions about the auditors' independence and quality of their work. Arthur Andersen, the auditor of Enron was the fifth largest auditing firm in the world, employing 85,000 people in 84 countries. On January 10, 2002, Andersen notified the SEC and the U.S. Department of Justice that Andersen personnel involved with the Enron engagement had disposed of a significant but undetermined number of electronic and paper documents as well as correspondence related to the Enron engagement.

The WorldCom Collapse

WorldCom went from being one of the biggest stock market stars of the 1990s to being the largest corporate accounting scandal in the U.S. (estimated at $11 billion as of March 2004**).** In 1983, partners led by former basketball coach Bernard Ebbers, sketched out their idea for a long distance company on a napkin in a coffee shop in Hattiesburg, Mississippi. Their company LDDS (Long Distance Discount Service) began providing services as a long distance reseller in 1984. Bernard Ebbers was named CEO in 1985 and the company went public in August, 1989. Its $40 billion merger with MCI in 1998 was the largest in history at the time. The company was a favorite with investors and Wall Street analysts. The stock ran up to a peak of $64.51 in June 1999. At that time, CEO Bernard Ebbers was listed by Forbes as one of the richest men in the U.S.

In October 1999, WorldCom attempted to purchase Sprint in a stock buyout for $129 billion in stock and debt. The deal was vetoed by the U.S. Department of Justice. At the same time, the firm began to unravel with an accumulation of debt and expenses, the fall of the stock market and of long distance rates and revenue.

The firm made a series of stunning disclosures in early 2002 that lead to a Chapter 11 filing in July of that year. WorldCom improperly booked $3.8 billion as capital expenditure, boosting cash flow and profit over the 5 previous five quarters. This disguised the actual net loss for 2001 and the first quarter of 2002.

The SEC filed a civil action charging WorldCom with a massive accounting fraud totaling more than $3.8 billion. The Commission's complaint alleged that WorldCom fraudulently overstated its income before interest, taxes, depreciation, and amortization (EBITDA) by approximately $3.055 billion in 2001 and $797 million during the first quarter of 2002 (SEC Annual Report 2002).

HealthSouth Corporate Fraud

Before its collapse in 2003, it was the largest provider of outpatient surgery, diagnostic and rehabilitative healthcare services in the U.S. Richard Scrushy was the CEO and chairman of the board of directors. "By 1988, HealthSouth had expanded to nearly 40 facilities in 15 states. The

[7] A major part of the information regarding the historical background of these groups was extracted from their annual reports and company's press releases.

company acquired most of the rehabilitation services business of National Medical Enterprise and became the largest provider of rehabilitation services in 1993" (Chaubey 2006, p. 3). The company's revenues came substantially from Medicare and for this reason the changing policy of Medicare in late 1990s had significant impact on the revenues of HealthSouth.

HealthSouth experienced huge financial difficulties in 2002 and the announcement of the temporarily resignation of the company's CEO, was considered as a warning signal in financial market and stock prices plunged subsequently. Despite the fact that the company's financial statements were materially misstated, "on August 14, 2002, Scrushy certified under oath that the company's 2001 Form 10-K contained *no untrue statement of a material fact*" (SEC 2003a, p. 1). In 2003, HealthSouth had been charged with Medicare fraud and SEC also accused the company's management of falsifying the earnings, cooking the books, internal control violations and fraud. The SEC accused HealthSouth Corporation for overstating its earnings by at least $1.4 billion since 1999. The SEC Civil Action (2003a) alleged that when HealthSouth's earnings fell short of Wall Street analysts' estimates, Scrushy directed the company's accounting personnel during the meetings of so called 'family members' to 'fix it' by artificially inflating the company's earnings to match such expectations.

Scrushy had personally benefited from the scheme to artificially inflate earnings. He had sold at least 7,782,130 shares of the company's stock during 1999–2001, when the company's share price was affected by its artificially inflated earnings. According to HealthSouth 2001 Form 10-K, from 1999 through 2001, the company paid Scrushy $9.2 million in salary. Based on SEC Civil Action (SEC 2003a, p. 4), approximately $5.3 million of this salary was based on the company's achievement of certain budget targets knowing that the company attained these targets through its scheme to artificially inflate earnings.

The founder/chairman of HealthSouth was finally indicted by a federal grand jury in November 2003 on 85 counts related to a scheme to overstate the company's profits by nearly $3 billion. "The jury found Scrushy not guilty for his role in the $2.7 billion accounting fraud at HealthSouth" (Malone and Pitre 2009, p. 326).

Parmalat (Italian Corporate Scandal)

The Parmalat scandal has been described by the SEC as "one of largest and most brazen corporate financial frauds in history" (SEC 2003b). To put this into perspective, by overstating assets and understating liabilities by approximately €14.5 billion (PricewaterhouseCoopers 2004, p. 4), the financial fraud at Parmalat is bigger than the combined financial frauds at Enron and WorldCom.

In 1961, Calisto Tanzi left university to concentrate on turning around the small family business, near Parma, Italy. By 2002, Parmalat was at its peak. It was a corporate giant composed of more than 200 companies in 50 countries, employing over 30,000 people in Italy. Before its financial collapse in 2003, Parmalat was Italy's eighth-largest industrial group and a giant in the world market for dairy, food products and beverages.

From about 1990–2003, the Parmalat Group borrowed money from global banks and justified those loans by inflating its revenues through fictitious sales to retailers. At the heart of the Parmalat scandal lies a letter, purportedly from the Bank of America, in which the bank confirmed that Bonlat, a Parmalat subsidiary based in the Cayman Islands,[8] had deposited close to €4 billion with the bank. Parmalat's problems came into the open on December 2003, when it had difficulty in making a bond payment amounting to €150 million. The problems reached epic proportions when the company made the extraordinary admission of a 'black hole' in its accounts, €3.9 billion cash that simply did not exist.

Parmalat acknowledged in a press release on December 19, 2003, that the assets in its 2002 audited financial statements were overstated by at least €3.95 billion. The company said that its net debt minus liquid assets was €14.3 billion at the end of September. On December 27, 2003, Parmalat was declared insolvent by the court of Parma and placed into extraordinary administration by Italian legislative decree.

The Royal Ahold (Dutch Corporate Fraud)

Before its spectacular collapse in 2003, the group of Royal Ahold was one of the world's largest international retail grocery and food service companies, based in the Netherlands and listed on the Amsterdam Euronext[9] market and the NYSE since 1993. In 2002, Ahold was the world's third-largest group in its sector with consolidated net sales of €62.7 billion from around 5,606 stores in 27 countries, with a consolidated loss of €1.2 billion (Ahold Annual report 2002). The following year, Ahold revealed more than $880 million in accounting irregularities at its Columbia-based U.S. Foodservices unit.

Ahold's capital worth continued to erode and in a few days $7 billion of shareholders' money had disappeared. As a result of this 'bad news', the group became the subject of a probe by the SEC in the U.S. In April 2003, the group

[8] The Caymans, in the Caribbean, has become very famous with the Parmalat case, but the Cayman Islands is one of the 'tax havens' the most used by international companies.

[9] Euronext is the joint market between Paris, Amsterdam, Brussels and Lisbon Stock Exchanges. This was created in the wake of the implementation of European financial market.

confirmed that the U.S. Department of Justice had issued subpoenas for company documents, including financial statements, audits, budgets, board meeting minutes, and details of a promotional program.

Deloitte Touche Tohmatsu, Ahold's auditor at the time of fraud, insisted that it warned the company about problems in its U.S. unit and said Ahold did not supply it with full information. The firm had suspended its 2002 audit pending completion of investigation by Ahold's supervisory board. Notwithstanding these elements, the forensic audit by PricewaterhouseCoopers (appointed auditor after fraud detection) documented lax internal controls and poor financial and accounting practices by Ahold.

Vivendi Debacle (French Media Conglomerate)

Vivendi is a media and environmental services conglomerate based in Paris, France. In its time, Vivendi was one of the largest European companies, had corporate officers in Paris and New York, and had securities traded on the NYSE. In 1999, the company employed 275,000 people around the world with consolidated net sales of €41.6 billion and €2.3 billion operating income.[10] The firm had grown almost entirely through buyouts.

When Vivendi issued its earnings releases in 2001 and 2002, the language was extravagant. A press release dated March 5, 2002 emphasized "the excellent operating results that have been achieved" and stated that the results "confirm the strength of Vivendi Universal's businesses despite a very difficult global economic environment." To cap it all, the firm announced it would pay a dividend in May 2002 of €1 per share. In fact, at the year-end 2001 and during the first half of 2002, Vivendi produced negative cash flows from core holdings such as its entertainment businesses, indicating that it would not be able to meet its debt obligations.

In July 2002, Vivendi admitted it was in a critical financial condition. The company announced a loss of €13.6 billion for fiscal year 2001, and accumulated debts of €37 billion-most of which were due to the asset write-down of the companies. The next year, the loss was €23 billion and the debt €12.3 billion. The value of the firm's shares fell by 70 % and trading in them was suspended on the Paris Stock Exchange. The board of Vivendi Universal unanimously asked Messier to quit, and in July 2002 he stepped down.

[10] Major part of the information was extracted from the annual reports and Form 20 F.

Results of Research Analysis

Research Question 1: Common Features of the European and American Corporate Failures

This research question seeks to identify the common characteristics of three American (Enron, WorldCom, and HealthSouth) and three European (Parmalat, Royal Ahold, and Vivendi Universal) corporate failures. Despite some differences between these two categories of companies in terms of firm-specific characteristics, shareholders' structure and environmental factors, the analysis sheds light on their significant similarities. These financial scandals were caused by the presence of all types of components sharing several important features notably with regard to poor ethical climate, greed, corruption, fraud, management misconduct, lack of effective control and governance mechanisms, and impaired auditor independence within these groups. Based on the outline presented in literature review, we have summarized below the concluding remarks on each topic.

Ethical Climate and Managerial Misconduct

The concerns on unethical behavior and misconduct in six corporate failures selected in this study go beyond the circle of the members of top management. Looking at how these corporations functioned over the years, there is a clear evidence of poor ethical climate and lack of commitment to ethical principles and deontology within them. Poor ethical climate and managerial misconduct show the 'dark sides' of these corporations that were all considered as 'white-collar crime' by regulatory agencies (SEC and other national bodies). Part of the problems was related to the hierarchical characteristics of organization within these companies, strong egoism, power abuse, and influential and authoritative position of CEOs (Kenneth Lay, Bernard Ebbers, Richard Scrushy, Calisto Tanzi, Albert Heijn, and Jean-Marie Messier, the CEOs of Enron, WorldCom, HealthSouth, Parmalat, Royal Ahold, and Vivendi Universal, respectively).

Three of these companies were run by families (HealthSouth, Parmalat, Royal Ahold). Our analysis of the historical background of these companies demonstrates a strong presence of 'clan' culture characteristics. In these companies the decisions were in fact made on personal actions and interpersonal relationships. "Employees act and feel like part of the family; leadership is considered to be mentoring" (Duh et al. 2010, p. 485). At the same time, this has reinforced the culture of individual interest, intimidation, abuse of trust, domination, abuse of power, emotional abuse, and obedience among the employees, particularly when the independence of the accounting department and control mechanisms (internal auditor, internal controller) is at stake. In three other companies (Enron, WorldCom, and Vivendi), similar characteristics (a high degree of egoism, a strong authoritative position, and influence) can be attributed to leadership. Besides that, these problems were also coupled with market culture characteristics in the sense that the top management and particularly the CEOs tried to influence the company's culture by showing a strong tendency for risk-taking, and aggressive earnings management. In the absence of well-defined key conceptual issues and core values regarding ethics, principles of deontology, reward, independent control and accountability mechanisms, the promotion of inappropriate conduct to subordinates as followers was one of the characteristics of unethical climate and corporate malfeasances in these six groups. To some extent, these factors explain the reason why this type of organizations become out of control under market pressure, which in turn leads to 'organizational deviance' (Vaughan 1999).

Tone at the Top and Executive Leadership

Notwithstanding an impressive set of written rules proposed by national regulatory bodies and international professional associations (e.g., COSO), the analysis of six corporate scandals provides a clear evidence of the lack of appropriate tone at the top. The CEOs who were responsible for setting the tone of company, ensuring effective compliance, establishing an ethical corporate culture and code of good conduct and also boards of directors who were in charge of overseeing the CEOs performance were not capable of creating an appropriate control environment. In fact, the boards were "sleepy-eyed sentries" (Schwartz et al. 2005, p. 96).

The failure, first of all, was due to the lack of willingness of CEOs in defining the core values in ethics and management code of conduct. They were *too big to fail*. Secondly, the relationship between the CEO and the board of directors was so collusive that there was no room for implementing control environment which reflects a supportive attitude towards internal control at all times. This collusion either resulted from the family relationship between the CEO and board members (HealthSouth, Parmalat and Royal Ahold) or related to the influential position of the CEO who was representing the majority of the shareholders (Enron, WorldCom, and Vivendi).

Although the concept of tone at the top is not limited to the responsibilities of the CEO and the board in the areas of internal control and financial reporting, their responsibilities in these areas were clearly highlighted by legal and political institutions. For instance, in the case of Enron, the U.S. Senate's Permanent Subcommittee on Investigations stated that "while the primary responsibility for the financial reporting abuses…lies with management…those abuses could and should have been prevented or detected at an earlier time had the Board been more aggressive and vigilant" (Senate Report 2002). Similar observation was made with regard to WorldCom "…although the Board, at least in form, appeared to satisfy many checklists at the time, it did not exhibit the energy, judgment, leadership or courage that WorldCom needed" (Directors' Report 2003).

The permissive attitude of management towards tone at the top had a significant influence on control culture within these groups and on the control consciousness of the employees who had practically no opportunity to question the possible wrongdoing and misconduct behavior in the company. The absence of a positive attitude and commitment of top executives towards the control environment was also a determinant factor in maintaining a week internal control which became a trigger for corporate fraud. Our analysis shows that it is not the form of internal control techniques that has been questioned, but the ways they have been implemented and their suitability in reinforcing control culture within these companies. In internal control process, the essential issues are independence, objectivity, and scope of control and sufficiency.

Bubble Economy and Market Pressure

Having benefited significantly from favorable stock market conditions during the 1990s, the collapse of six American and European companies discussed in this paper coincide with the stock bubble of the late 1990s, and the puncturing of that bubble in 2000. The catalyst for these events was a fierce battle by many top executives of publicly listed companies to meet investors' expectations that the corporations in which investors purchased stock would report a steady stream of high and ever-increasing quarterly profits and revenues.

One of the unfavorable outcomes of the bubble economy is the way the CEOs and top management of six groups had considered the financial reporting process. This had sometimes led to a corporate culture that treated financial reporting as little more than a numbers game. In fact, the pressure exercised by financial market has opened the door to opportunistic managers. The management of these six groups made increasingly aggressive assumptions and estimates about their business and selected those alternative accounting practices to report results that would match the unrealistic analyst expectations they had promoted. The case of consecutive false earnings announcements made by the chairman of Vivendi (Jean-Marie Messier) is a good example of such opportunistic attitude. Similarly, the top management of HealthSouth regularly held a family meeting with the company's accountants for to 'fill the gap', in order to manipulate earnings. The management of

HealthSouth used to review quarterly unreported actual reports and compared the results to analysts and market expectations. In the case of unfavorable variance, the accounting and finance department was ordered to fix the problem.

The top management of these companies has also used aggressive accounting estimates, 'income smoothing' policies, loss avoidance and all sort of 'cooking the books' since the market is harsh on companies that miss their estimates. Like other corporate failures in the U.S., the management of the European groups, particularly at Ahold and Vivendi, searched for 'loopholes' in financial reporting standards which allowed them to 'flex' the numbers as far as possible to achieve their desired aim or satisfy/forecasts by analysts. The external auditors and audit committees working as the gatekeepers also failed to detect the fraudulent actions on time in these three European corporate failures. This is similar to what happened in several corporate scandals in the U.S. as highlighted by Coffee (2005).

The bubble economy occurred in the decade beginning around the year 2000 also coincides with the appearance of a similar phenomenon called a financial-incentive bubble. The CEOs and senior executives of the six corporations, in contrast to certain other interested parties, particularly the minority shareholders and the employees, were largely benefited from the bubble economy by using financial markets-based compensations since their performance was evaluated on the basis of high-powered incentive contracts.

Accountability, Control Mechanisms, Auditing, and Governance

The analysis of six corporate failures provides evidence of high profile lapses of accountability, lack of efficient internal control mechanisms, poor quality of external audit, impaired auditor independence, and ineffective corporate governance structure especially audit committee. The internal controllers and auditors were failed to detect and prevent the fraud. These cases also demonstrate the failure of corporate governance and audit committees within these groups in performing their responsibilities to ensure, through oversight of management, that the company establishes and maintains internal control to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. External auditors of these six groups are responsible for not being able to exercise their functions in an independent manner and detect the material misstatements and fraudulent financial reporting.

As an example of poor quality internal control, in the case of Royal Ahold when auditors (Deloitte & Touch) decided to suspend the audit of 2002 fiscal year, another Big Four auditing firm (PricewaterhouseCoopers) conducted the forensic investigation of the group. They reported that a total of 275 out of 470 accounting irregularities discovered at Ahold could be related to weak internal controls (De Jong et al. 2005).

The external auditors in charge of examining the accounts of six groups were practically failed to detect the material misstatements in annual and quarterly financial statements. The Enron–Arthur Andersen story ignited the issue of auditors' responsibility in corporate scandals at the beginning of this century. The Andersen's chief executive (Joseph Berardino) admitted that Andersen had made "errors of judgement" in its audit of Enron (Wall Street Journal 4 December 2001). They considered \$51 million as immaterial when Enron reported income of \$105 million (Brody et al. 2003).

The Andersen failure in Enron's meltdown had surfaced again with WorldCom. Ernst & Young, another Big 4 accounting firm ignored early signs of trouble when examining the HealthSouth's extraordinary profitability and quality of internal control systems (Solieri et al. 2009).

The failure of external auditors is not limited to U.S. corporate scandals. The auditors of Parmalat were not capable to detect the large scale of fraudulent accounting operations including a crude forgery of what is later called '*Buconero*' (Italian for 'black hole'). This was related to the company's statement attesting that that it was holding €3.95 billion (approximately \$4.9 billion) in an account at the Bank of America in New York City in the name of Parmalat's Cayman Islands subsidiary, but the bank's confirmation letter had been forged by group. Similar lack of diligence on behalf of auditors and internal control department was observed in the case of Royal Ahold 'Big Bath' accounting operations at U.S. Foodservice, a subsidiary of Royal Ahold and 'cooking the books' by Vivendi's management.

The analysis of these cases also shows the absence of effective audit committees (Enron, WorldCom and Vivendi) and lack of independent corporate governance mechanisms (HealthSouth, Parmalat, and Royal Ahold) for challenging management when they believe management was not acting in the company's interests or is performing poorly.

Executive Personal Interest, Compensation Package, and Bonus

The review of six corporate failures shows that the CEOs and senior members of management had largely benefited from companies' funds in the form of salary, bonus, and the stock options. Above all, they often used the company's money for personal interest. The followings are some examples of the opportunist attitude of top management.

- *Benefiting from a generous contract including salary, bonus, option-based incentive schemes (Enron, World-Com, HealthSouth, Parmalat, Royal Ahold), and also golden parachute (Vivendi),*
- *Using the company's money to indulge the personal whims of CEO and his family (Parmalat, Royal Ahold, HealthSouth, Vivendi, Enron),*
- *Maintaining an extravagant lifestyle using company's money (Parmalat, Vivendi),*
- *Using company's money to buy an apartment in New York for more than $17 million (Vivendi),*
- *Insider trading (Enron and HealthSouth).*

The CEOs and top management in the six groups had used the market-based compensation schemes to determine their remunerations. Using such schemes, "however, requires resolving an extremely thorny issue: how to distinguish between outcomes attributable to skill and those due solely to luck and make that distinction the basis for compensation" (Desai 2012, p. 127). Besides that, the existence of several conflicts of interest between the CEOs and company creates the potential for distorted incentives. In that sense, the management incentives for higher compensation may have been used by implementing aggressive earnings management (Jones and Wu 2010) which have direct link with fraud (Persons 2006) and fraudulent financial reporting (Soltani 2007).

The absence of an effective corporate governance structure and particularly the compensation committee which is responsible for recommending pay packages for senior management is another major problem in these six groups. Similarly, the external auditors in charge of the audit of these groups did not perform a thorough examination of management compensation packages that may encourage management' power abuses. The compensation plans featuring significant bonuses tied to reported earnings or other performance targets warrant special attention.

RQ2 What are the major similarities and differences between the American and the European corporate failures from the fraud triangle perspective?

Using the concept of 'fraud triangle', we provide evidence regarding six American and European financial scandals. This analysis demonstrates the gravity of financial scandals caused by corporate deviance, ethical disaster, fraudulent financial reporting, greed, corruption, and the problems regarding management misconduct and the lack of efficient control mechanisms within these groups.

The analysis sheds light on several critical issues. These include, for example, the family owners' desire for more power and wealth, management's personal ambition, the fixing of unrealistic growth rates, dominant CEOs, management overreaching its authority by overriding control mechanisms, lack of effective corporate governance and audit committee, and impairment of auditor independence. Executives tried to expand the activities of their groups too rapidly, or siphoned off funds for themselves. Other elements of fraud mainly include the significant big bath accounting operations, earnings manipulation, cooking the books as well as ill-equipped control mechanisms and poor quality external audit that did not contribute to fraud detection.

Although the analysis of fraud triangle presented here provides sufficient evidence of management failures in six groups, the discussion should be expanded to other important issues such as the place of ethics in capital market, corporate culture, the passive role of regulatory forces and intermediary parties, ineffective corporate governance codes, the lack of effective control environment and accountability mechanisms (as shown in Fig. 3).

The executives and CEOs are responsible and should be accountable for irrational decisions and their complacency regarding corporate functioning and ethical issues. However, it is equally important to examine the environmental factors, corporate culture and public policy that may contribute to corporate failures. It is evident that the soft and flexible regulations, the lax attitude of regulatory bodies and the absence of preventive measures and disciplinary sanctions provide favorable conditions for fraudulent actions. Referring to the case of Enron, Coffee (2004) stated that Ken Lay (CEO of Enron) indictment is surprising in what it does not allege. Ferrell and Ferrell (2011) believed that in Enron case, "there were no allegations of knowledge or participation in ordering or creating a specific fraudulent event. The Enron's CEO was indicted and convicted more for optimistic puffing than for predatory fraud" (p. 213). Ferrell and Ferrell continued their argument by stating that "while Ken Lay may have been guilty of complacency and the failure to develop an effective ethical culture at Enron, apparently, most of the charges against him were not a crime" (2011, p. 218).

Similarly, violations of ethics, trust, and integrity tied to power abuse are at the core of the fraudulent activities which took place in these six cases and other financial scandals. Indeed, the ethical corporate culture—including tone at the top—is the core issue and an effective means of deterring fraud and corporate malfeasance.

RQ3 What are the major differences between six American and European corporate scandals particularly with regard to the specific characteristics of the firm and the environmental factors (ownership structure, coverage in media and academic literature, legal and regulatory frameworks and corporate governance codes)?

The following points summarize the major differences regarding corporate and environmental issues.

Concentrated Versus Dispersed Ownership

All six groups discussed in the study were among the largest publicly listed companies in financial market. The European groups have either strong family ownership (Parmalat, Ahold) or concentrated shareholdings (Vivendi). Richard Scrushy, the CEO of HealthSouth and his family also had large stake in company. Enron and WorldCom had dispersed shareholder structure. Despite several theoretical arguments in favor of these two ownership structures, both systems were failed.

The results of our analysis are in line with the arguments put forward by Coffee (2005) who compared the U.S. and the European scandals and asked whether European managers are more ethical or if European shareholders are better off than their American counterparts. Coffee rejected this idea on the grounds that concentrated ownership encourages a different type of financial overreaching: the extraction of private benefits of control. He stated that different kinds of scandals characterize different systems of corporate governance. According to Coffee (2005), the dispersed ownership system of governance (the Anglo-Saxon system) is prone to the forms of earnings management that erupted in the United States, but concentrated ownership economies (the European system) are much less vulnerable.

Concentrated ownership may also mitigate agency problem as a substitute for legal protections. One might expect that even without strong legal institutions, large investors have the means and the incentives to monitor managers. However, as highlighted by Shleifer and Vishny (1997) "although large investors can be very effective in solving the agency problem, they may also inefficiently redistribute wealth from other investors to themselves." (p. 774). This issue has also been raised by Coffee (2005) who stated that a controlling shareholder … can rely on a 'command and control' system because, unlike the dispersed shareholders, it can directly monitor and replace management.

Evidently, the ownership structure in Parmalat, Ahold, and HealthSouth addresses the agency problem as the families had a large interest in profit maximization, and enough control over the assets of the group to have their interests respected. The presence of large share holdings in these groups also bears excessive risk in financing and investing policies. In Parmalat, despite being listed on the Milan Stock Exchange, the Tanzi family had a controlling stake of around 51 % in Parmalat Finanziaria, which became the holding of the group. Similarly, in Ahold group, despite its listing on the Amsterdam Stock Exchange, the Heijn family always kept the control of the group by attributing 'founder' (or 'priority') shares to two sons of the founder.

Media Coverage and Academic Literature

There has been more transparency and public debate on corporate scandals in the media in the United States compared to Europe. This has also been the case of academic literature which includes significant number of research papers and commentaries on corporate scandals. The strong coverage of the financial matters in print and broadcast media has been an important factor in providing larger public discussion on financial scandals in the U.S. compared to Europe. This may be due to the significant size of the U.S. financial market compared to the European countries. The other reason may be related to the fact that after the disclosure of financial scandals, the regulatory and judicial bodies in the United States in contrast to European countries became actively involved in investigation and imposing sanctions including on the European companies (Royal Ahold and Vivendi) listed on NYSE. This has provided a better opportunity for the media in the U.S. to cover the cases. Benediktsson (2010) who investigated the news coverage of six large-scale accounting scandals (including HealthSouth) that broke in 2001 and 2002 in the U.S. noted that "attention to the adjudication of individual crimes and the punishment of individual offenders received the bulk of media attention" (p. 2189). Similarly, Cohen et al. 2010 who examined the role of managers' behavior in the commitment of fraud in 39 cases of corporate scandals in press (including Ahold, Enron, HealthSouth, WorldCom), highlighted the wide coverage of U.S. cases of alleged or acknowledged corporate frauds in press articles.

The distorted perception of European scandals may also be related to the point that the public opinion in most European countries is much more disenchanted than in the United States. Some authors believe that "at least in some European countries (e.g. Italy), most people have feelings of admired envy rather than of outrage in the face of a CEO who cashes in a pile of stock options before the market price of her company's shares collapses, or even in face of insider trading violations" (Enriques 2003, p. 915).

Stronger Public and Private Enforcements and Corporate Governance Rules in the U.S. Compared to Europe

There are several major differences between Europe and U.S. with regard to legal environment, enforcement efforts by securities regulators, and the level of disclosure and corporate governance codes. These differences are not only limited to the number of legislations and regulations regarding corporate issues which are much higher in the U.S. compared to Europe, it concerns also the enforcement intensity and its content. Despite having common law system, there is high-enforcement legal regime in the United States. Coffee (2007, p. 14) discussed several major differences between common law and civil law systems:

- *Common law and civil law countries differ markedly in their regulatory intensity, with the former expending vastly greater resources on enforcement by a measurement standard;*
- *In terms of actual enforcement actions brought and sanctions levied, the United States is an outlier, which, even on a market-adjusted basis, imposes financial penalties that dwarf those of any other jurisdiction;*
- *Public enforcement of law is supplemented by a vigorous, arguably even hyperactive, system of private enforcement in the form of class actions. This system has no true functions analogue anywhere in the world;*
- *The U.S. prosecutes securities offenses criminally- and does so systematically.*

Compared to the U.S. and based on the above four criteria, the European legal system is much less broader and vigorous even in the case of 'core' offenses, such as market abuse and insider trading.

In the European context, the problem also comes from the corporate governance codes. The European codes in corporate governance are mainly based on the concept of 'comply or explain' which implies that a company which chooses to depart from a corporate governance code recommendation must give detailed, specific and concrete reasons for the departure. Although the general introduction of the 'comply or explain' approach provides flexibility in the area of information disclosure regarding corporate governance, there are also serious shortcomings in applying this principle in the sense that it reduces the efficiency of the EU's corporate governance frameworks and limits the system's usefulness. The Green paper (European Commission 2011) reveals that "over 60 % of cases where companies choose not to apply recommendations, they did not provide sufficient explanation" (p. 18). They either simply stated that they had departed from a recommendation without any further explanation, or provided only a general or limited explanation.

Another major weakness of the 'comply or explain' concept is that there is no sanction for those who do not comply. As highlighted by Norton Rose Group (2003), if explanation rather than compliance is chosen by enough listed companies, it will become the norm not to comply, and companies will be less inclined to make the effort to comply.

However, the discussion on six corporate scandals in this study provides evidence that neither the regulators nor the intensity and rigidity of the enforcement actions had any preventive effect on these cases. Although the U.S. regulates its financial market considerably more rigorously than does the European Commission and national regulatory bodies in Europe, the number of cases of market abuse and insider trading are still quite high in the U.S. Armstrong et al. (2010) identified 1,822 incidences of accounting and manipulation restatements, 1,398 accounting lawsuit and only 324 SEC Accounting and Auditing Enforcement Release (AAER) for the fiscal years 2001–2005. The authors acknowledged that AAERs occur much less frequently than accounting restatements or accounting related litigation.

Stronger Sanctions and Disciplinary Policies in the U.S. Compared to Europe

The SEC has imposed severe financial and criminal sanctions on three U.S. groups (Enron, WorldCom and HealthSouth). Coffee (2007) estimates that in terms of the aggregate private and public civil enforcements, the total monetary sanctions imposed in the United States by the SEC and class actions plaintiffs came to either \$5.3 billion or \$11.5 billion (depending on whether one excludes the WorldCom class action settlement (p. 39). In the case of WorldCom, the SEC imposed a fine of \$2.25 billion on the company which was later reduced by bankruptcy court to \$750 million. In addition, four of WorldCom's executives were prohibited from serving as officer, director or accountant of a publicly held company. Based on Coffee (2007) and Karpoff et al. (2007), in the case of WorldCom the Department of Justice fined CEO (Bernard Ebbers), its CFO (Scott Sullivan), and four others, resulting ultimately in combined sentences of 32.4 years and \$49.2 million in restitution. A parallel private class action settled in 2005 for \$6.8 billion, which was mainly paid by banks and financial institutions that worked with WorldCom (Coffee 2007). Enron and HealthSouth were also subject to financial and criminal sanctions imposed by the SEC and Department of Justice.

The cases of the European groups (Parmalat, Ahold, and Vivendi) were investigated by public prosecutors in Italy, the Netherlands and France. Because of their activities in the U.S. or their presence on NYSE, the SEC, and U.S. Department of Justice have conducted a criminal investigation against these groups. In the case of Parmalat and Royal Ahold, in order to avoid any problem of double jeopardy, the SEC and U.S. Department of Justice pursued these groups under national jurisdictions rather than U.S. law. The most severe penalties were taken in the case of Parmalat. On December 9, 2010, a court in Parma found the CEO (Calisto Tanzi) guilty of fraudulent bankruptcy and criminal association and sentenced him to 18 years in prison. This sentence was confirmed in December 2011 by the Italian justice. Several other executive members of Parmalat were also condemned to prison sentences. They were also ordered to pay the amount of €2 billion ($2.71 billion) to the group and compensate the other shareholders for 5 % of the share values. In the cases of Ahold and Vivendi, the authorities had reached a settlement by imposing mainly monetary penalties. Vivendi group agreed to pay $50 million civil money penalty into a Sarbanes–Oxley "Fair Fund"[11] (Vivendi 2003).

Concluding Remarks

This paper examines the six American and European financial scandals by analyzing a broad perspective of corporate issues including ethical climate, leadership and tone at the top, bubble economy and market pressure, fraudulent financial reporting and earnings management, accountability, control mechanisms and auditing, corporate governance, management compensation, and personal interests. The study also considers the legal and regulatory frameworks.

The analysis of these corporate scandals demonstrates that, the ethical dilemma has been coupled with ineffective boards, inefficient corporate governance and internal control, accounting irregularities, failure of external auditors, dominant CEOs, greed and a desire for power and the lack of a sound 'ethical tone at the top' policy within the corporations. Poor ethical climate and lack of willingness of CEOs in defining the core values such as accountability, control, deontology, independence, integrity and responsibility led to organizational deviance. A deeper problem was the use of inappropriate financial reporting and accounting systems as well as ineffective internal and external audit which did not permit the detection of the factors of fraud risk in time. The analysis also provides evidence that the corporate governance and audit committees in several cases of corporate scandals were not capable of taking immediate preventive measures by giving warning signals to market participants.

The analysis presented in the paper sheds light on the fact that, despite major differences between the U.S. and the European environments in terms of political institutions, laws and regulations as well as corporate culture and managerial practices, there are significant similarities between six high profile corporate failures. The similarities between these corporate failures were also observed in the analysis from the fraud triangle perspective. The analysis also provides evidence of distorted incentive schemes, remarkable levels of top management compensation via financial markets-based incentives and the close relations between repeated corporate governance crises and ill-conceived managerial incentives created by these instruments.

The causes of corporate failures should also be investigated with respect to environmental factors. On one hand, the bubble economy and financial market pressure and also the perception of market participants on 'they were too big to fail' have led to the unfavorable conditions affecting these groups. The fact that CEOs and senior executives can dictate the timing and levels of market-based compensation, the market condition has indeed tremendous impact on their decisions. On the other hand, the soft and flexible regulations, the lax attitude of regulatory bodies and the absence of preventive measures, sanctions, and disciplinary policies provided favorable conditions for fraudulent actions within these groups.

The evidence of ineffective control mechanisms and poor corporate governance policies implemented within these groups reinforces the idea that corporate executives should not be allowed to make arbitrary decisions to use other people's wealth for their own interests or even for what they believe to be in the corporation's interests. Shareholders need to have effective accountability mechanisms in place for challenging management when they believe management is not acting in their own interests or is performing poorly. More importantly, the essential question would be how to integrate ethical tone at the top in financial market and in the company's culture in order to implement control mechanisms in such a way that fraudulent behavior can be mitigated.

The multidisciplinary, international features and comparative analyses used in this research study may provide several academic and practical contributions. First, from the academic perspective, this study provides an innovative approach by examining a wide range of possible causes of corporate financial scandals regarding ethics, management behavior, corporate fraud, accounting, financial reporting and auditing, control mechanisms, tone at the top and leadership, management incentives and compensation package, corporate governance, accountability as well as considering the environmental factors (bubble economy, laws and regulations). The examination of these important issues within a theoretical framework including six core topics may be considered as an innovative approach in the analysis of the causes of corporate fraud. Indeed, the previous academic literature mainly examines the issue of corporate fraud in relation to accounting misstatements, management behavior, fraudulent financial reporting,

[11] In the Fair Funds provisions of the SOX Act of 2002, Congress gave the SEC increased authority to distribute ill-gotten gains and civil money penalties to harmed investors. The Commission has returned more than $4 billion to investors for the period 2002-august 2008 (SEC 2008).

internal control, and auditing. However, the evidence shows that corporate fraud goes on at a deeper level within the company and the environment in which it operates.

Second contribution of the paper relates to an in-depth comparative analysis of high profile American and European corporate failures presented here. Most previous research studies discuss the cases of financial scandals in the United States. However, the series of corporate fraud and scandals of several European multinational groups during the period of 2001–2003 clearly show that Europe had its share of corporate scandals and governance failures, which were quite comparable with those of the U.S. in size and importance. This study also aims to respond to the serious shortcomings of the discussion on the European cases as far as academic publications and media coverage are concerned.

Furthermore, regarding the fraud triangle, this study does not limit the analysis of corporate fraud to definitions and discussions provided in the auditing standards of SAS 99 or ISA 240 of IFAC. The analysis is presented by using an extended framework of fraud triangle in a broader sense by taking into consideration the environmental (e.g., bubble economy and financial market) and regulatory context as well as the ethical climate. The approach used in this study is considered as a research contribution because it provides a critical analysis towards the auditing standards of fraud triangle and also sheds light on its shortcomings as we believe that the current fraud triangle model does not provide an adequate basis for fraud analysis. Above all, our discussions include specific characteristics of the company and the environmental factors (ownership structure, media coverage, legal and regulatory frameworks and corporate governance codes), the topics which are rarely or not sufficiently discussed in previous studies.

Overall, we believe that the different analyses presented in this study with regard to common characteristics of corporate debacles provide potential contributions in better understanding of the root causes of corporate fraud and financial failure at international level. The paper may also have practical implications for regulators and standard setters seeking to reinforce the oversight mechanisms in the financial market. Similarly, the analyses may be useful for listed companies and professional bodies which intend to improve their codes, policies or practices in corporate governance or different areas discussed here.

Although this study examines the cases of significant corporate failures in a broader context, further research can explore other areas of interest. For instance, in our analysis, we equally selected three American and three European groups among high profile corporate failures in recent years. A further study can extend the sample size considering the companies and financial institutions at international level.

For the purpose of this study, we reviewed the historical background of corporations published in their annual reports, reports of regulatory bodies (SEC and national regulators), professional and academic literature, and newspapers. A deeper inquiry may be made in order to understand better the *inside story* of these or similar cases. Having considered the significant size of these corporate scandals and massive financial fraud, there are certainly other reasons which may explain the causes of such organizational deviance.

Another area that could be further explored is an in-depth analysis of these cases from the legal and regulatory perspectives. In this paper, we examined public and private enforcements as well as sanctions and disciplinary policies in Europe and the U.S. We did not present all our observations because this was not the major objective of the paper. This research issue and the results will be presented in another study. One area of research could be the analysis of such cases by referring to court documents and reports disclosed by political institutions and regulatory bodies. It would also be interesting to examine the corporate scandals from the viewpoints of CEOs, senior executives, and intermediary parties (external auditors, financial analysts). It would certainly be useful to listen to their stories about the possible causes of their failures [e.g., the paper of Ferrell and Ferrell (2011) which is mainly based on the interview with Ken Lay the CEO of Enron)].

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