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An "American Dream" theory of corporate executive Fraud

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Abstract

In this paper, we first describe a "Broken Trust" theory that was introduced by Albrecht el al. [Albrecht, W. S., Albrecht, C. C., & Albrecht, C. O. (2004). Fraud and corporate executives: Agency, Stewardship and Broken Trust. *Journal of Forensic Accounting, 5*, 109–130] to explain corporate executive Fraud. The Broken Trust theory is primarily based on an "Agency" theory from economic literature and a "Stewardship" theory from psychology literature. We next describe an "American Dream" theory from sociology literature to complement Albrecht el al.'s (2004) Broken Trust theory. Like the Broken Trust theory, the American Dream theory relates to a "Fraud Triangle" concept to explain corporate executive Fraud. Finally, we provide some anecdotal evidence from recent high profile corporate executive Fraud to explore the American Dream theory. We conclude our thoughts on corporate executive Fraud from a teaching perspective.
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Keywords: Corporate executive Fraud; American Dream theory; Broken Trust theory

1. Introduction

In this paper, we first describe a "Broken Trust" theory that was introduced by Albrecht, Albrecht, and Albrecht (2004) to explain corporate executive Fraud. The Broken Trust theory is primarily based on an "Agency" theory from economic literature and a "Stewardship" theory from psychology literature. We next describe an "American Dream" theory from sociology literature to complement Albrecht et al. (2004) Broken Trust theory. Like the Broken Trust theory, the

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American Dream theory relates to a "Fraud Triangle" concept to explain corporate executive Fraud. We are motivated to explain corporate executive Fraud because whenever corporate Fraud has been studied, CEOs and CFOs are most involved. For example, the COSO-sponsored study by Beasley, Carcello, and Hermanson (1999) found that CEOs were involved in 72 percent of the financial statement Fraud cases. The next most frequent perpetrators in descending order of frequency were the controller, COO, vice presidents, and members of the board.

We define "corporate executive Fraud" as follows. First, a corporate scandal is a scandal involving allegations of unethical behavior on the part of a company. It follows that a corporate accounting scandal is a scandal involving unethical behavior in accounting, that is, accounting Fraud. Accounting Fraud includes intentional financial misrepresentations (e.g., falsification of accounts) and misappropriations of assets (e.g., theft of inventory) (AICPA, 2002). Intentional financial misrepresentations involving the management of a company are referred to as corporate executive Fraud, whereas misappropriations of assets involving the employee of a company are referred to as employee Fraud. Taken together, corporate executive Fraud is intentional financial misrepresentations by trusted executives of public companies, which typically involve creative methods for misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets, or underreporting the existence of liabilities.

Finally, we provide some anecdotal evidence from recent high profile corporate executive Fraud[1] to explore the American Dream theory. We are well aware of the fact that anecdotal evidence is weak evidence without empirical validation. However, our paper is written to provoke thoughts on corporate executive Fraud in American society and to stimulate further empirical research on social variables of executive Fraud. We also believe that a better understanding of corporate executive Fraud would help to address some issues from a teaching perspective in our concluding thoughts.

2. Potential theories of corporate executive Fraud

Albrecht et al. (2004) describe a Broken Trust theory to explain corporate executive Fraud. It should be noted that they have never used the term "Broken Trust" in their theory. We took the liberty of labeling their theory as the Broken Trust theory. Since Albrecht et al. (2004) derive their Broken Trust theory by linking the Agency theory and Stewardship theory to the Fraud Triangle concept in corporate Fraud literature, we first describe the Agency theory, follow by the Stewardship theory, and then the Broken Trust theory. We are aware that research and publication in Agency and Stewardship theories are very extensive, but only those that are specifically related to corporate executive Fraud are cited in this paper.

2.1. Agency theory

Agency theory was introduced into management literature by Jensen and Meckling (1976). The theme is based on economic theory and it describes a principal–agent relationship between owners (such as stockholders) and executives, with top executives acting as agents whose personal interests do not naturally align with shareholder interests.

[1] Recent high profile Fraud by corporate executives include (in alphabetic order): Adelphia (John Rigas), Cendant (Walter Forbes), Enron (Kenneth Lay), Global Crossing (Juan Legere), HealthSouth (Richard Scrushy), Homestore (Stuart Wolff), Qwest (Joseph Nacchio), Sunbeam (Al Dunlap), Tyco (Dennis Koalowski), Waste Management (Dean Buntrock), and WorldCom (Bernie Ebbers). We focus on three in this paper: Enron, WorldCom, and Cendant.

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