# Committing White-collar Crime: What Organisational Mechanisms Exist to Ensure Accountability? Can this Profession still be relied on to Regulate Itself?

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**Abstract**

This article studies the relationship between the intangible qualities of *accountability* and the hidden nature of *white-collar criminality* in the accounting profession. I will argue that the lack of definable *accountability* mechanisms and the poor public awareness of *white-collar crime* directly affect the transparency and likelihood of corporate wrongdoing. As the ambiguities of *accountability* traits rely on the complexities of organisational structures and cultures, crimes can often be concealed. In a modern context the connection between individual and collective rights and responsibilities is important due to the growing interdependence of globalised economies. I will argue that *accountability* often fails to deliver on such demands, revealing possible discrepancies in the time-line of historical accounting treatments and discovery of criminal activity. This study will begin by tracing the origin of key terminologies and follow theoretical reasoning as to why the current issue of professionalism is important. Furthermore, an examination will be made of past, current and future remedies that can establish reliable *accountability* measures and rebuild trust in accountancy. I will conclude by suggesting how the profession can strive for greater *accountability*.

**Keywords:** White-collar criminality, accountability, individual and collective rights.

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## Origins

Accountancy is a well-established and ever-changing profession within society (Littleton, 1954) and so strict attention should be given to moral duties within its trusted practices. The term *accountability* originated in Britain as early as the eleventh century (Bovens, 2007) and was later used in reference to individual acts and collective duties (Dealy and Thomas, 2007). Even in its historical context the notion delivers a sense of control and purpose, an inherent desire of human beings to stand out as leaders for a common goal. This implies that people respond to portrayals of power in order to classify and justify their own roles in society. *Accountability* goes beyond mere *responsibility* because of the intangible qualities of human emotion in the expectation of trust, loyalty and moral behaviour.

Furthermore, *professional accountability* encompasses the expectations placed upon people of the upper classes who have the ability to affect society from both the private and public sectors (Sinclair, 1995). Such a term provides specific respect and demand to a group of people distinguishable by qualifications and experiences in their field of work. Accountants are exposed to this *accountability* because society relies on them for their expertise and judgements. Ultimately, accountancy is a profession that collects and records financial data for decision-making purposes within an information system bound by subjective errors (Christensen, 2010). The need for *accountability* in the accountancy profession has grown considerably in modern times, not least of all through public pressure (Bovens, 2007) and because of abuses of accounting procedures (Briloff, 2003) concerning subjectivity.

We need to establish the link between the emergence and continuation of *white-collar crime*, and the effectiveness of *accountability* mechanisms to expose such actions, which must be present if the accountancy profession is to be implicated in such wrongdoing. Tyler (2009) stereotypes *white-collar criminals* as highly educated men who commit non-aggressive acts in order to obtain monetary rewards beyond what is legally theirs to gain. However, further examination of *white-collar crime* cannot be without the inclusion of Edwin H. Sutherland's research, an influential leader in recognising key sociological characteristics (Geis, 2007). His work throughout the mid-twentieth century opened up debate on the crimes associated with professionals and the company mechanisms that combat them (Sutherland, 1940; Sutherland, 1945). The success of Sutherland's academic studies relies heavily upon the transparency and attention that the media afforded him,




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implying that today's focus is instead on large-scale scandals (Geis, 2007).[1] I will argue next that cases of *white-collar crime* represent a lack of full ethicality and consideration within the accounting profession.

### Motives of White-Collar Crime

Overall, Shover and Hochstetler (2006) place most importance on the rationality of crime as a choice and one from which people of high status and importance can realistically reap financial benefits. The egoistic philosophy summarises the motivation of *white-collar crime* by explaining that every individual institution or person acts in accordance with their own welfare to ensure their own ambitions are fulfilled (Beauchamp and Bowie, 2004).

Furthermore, Brightman and Howard (2009) stress that the prominence of *white-collar crime* in recent decades has further links with other more life-threatening crimes such as terrorism and organised criminality. This highlights the issue that regardless of the ethics of trading opportunities, traders will seek to exploit personal gains they believe will not be discovered within the dominant environment of modern capitalism. Some of the features of these crimes are useful to explain such a phenomenon, including the relative ease for manipulation of authority by senior managers, the culture that facilitates risky behaviours and the major challenges to full transparency of information.

Tillman and Indergaard (2005) argue that major US accountancy firms have frequently broken corporate rules and failed to meet stakeholder needs because of the greater freedom they have. This affords more scope to commit fraud, especially through professional bodies like the American Institute of Certified Public Accountants, as well as corporate regulations introduced since the turn of the twentieth century (Tillman and Indergaard, 2005). Consequently, the self-governing nature of the profession allowed accountants to create a culture of manipulation, in order for senior management to obtain their desired corporate rewards whilst providing misleading information. These illegal actions highlight the negative effect that reduced liability and *accountability* of accountants, along with inadequate checks of conduct, will have on the legitimacy of the profession.

[1] Moreover, Robb (1992) argues that the Industrial Revolution, which occurred during Victorian times, was the catalyst for *white-collar crime*.



 
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Furthermore, major accountancy firms were implicated in savings and loans crimes throughout America during the latter part of the twentieth century, with many certified public accountants found guilty (Calavita, Pontell and Tillman, 1997). The companies were forced to pay huge fines to the government without having the blame exposed, undermining the profession (Calavita, Pontell and Tillman, 1997). This encourages rule-breaking without harsh enough treatment to prevent future occurrences, creating systematic habits of risk-taking.

Window-dressing and aggressive accounting are misleading accounting techniques that deliberately misinform users of the accounts. Comer (2000) explains *window-dressing* as a fraudulent practice through the falsifying of key financial indicators and excluding policy changes in finance and auditing personnel. The reasoning behind such non-disclosure is often due to a conflict of interest and inflation of company value. Elliot and Schroth (2002) distinguish this from aggressive accounting; exploitation of technicalities in accounting frameworks made within the confines of accounting standards whilst ignoring the strong recommendations of auditors. This indicates there are very few incentives to prevent accounting forgeries.

Although misrepresentations are symptomatic of certain discrepancies, unless regular and scrutinised checks are made, the practicality of such exposures can easily be hidden, allowing the growth of *white-collar crime*. As companies and professional accountants are experts, their skills can be used as a challenging mechanism for standard setters. Also if Elliot and Schroth's (2002) argument that no immediate correcting system currently exists to either safeguard shareholders or expose the wrongdoing, then this criminality is further exemplified as a motive. Enron's then Chief Financial Officer Andrew Fastow, the auditors at Arthur Andersen (Rapoport, Van Niel and Dharan, 2009) and WorldCom's Chief Financial Officer and accountant Scott Sullivan (Jeter, 2003) are among the major known people to have abused such methods. Dodge (2009) further concedes that women have also played an important role within the study of criminology in the workplace, contradicting the notion that only men perpetrate these crimes. There have been notable female white-collar criminal accountants, including Lea Fastow, Enron's Director and Assistant Treasurer of Corporate Finance, and Betty Vinson, WorldCom's Director of Corporate Reporting, who committed numerous frauds and conspiracies that were revealed as the companies collapsed (Dodge, 2009). An issue of traditional societal assumptions and disproportionate media exposures



 
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concerning women's roles and motives in the profession highlights the historical reduction in *accountability* afforded to such persons.

Although the motives behind *white-collar crime* can vary between individuals, the practical notion of an industry built upon a monetary system must rely heavily on the rationale of individual utilitarianism. This leads to Fisher and Lovell's (2009) cost-benefit analysis where the financial rewards taken without repercussions must exceed the financial costs if discovered and punished. The evidence of such failures could lie in the lack of large enough incentives to prevent fraud in the first instance and the huge impact that such scandals eventually have; a symptom of improper self-regulation.

## Professional Self-Regulation

At the beginning of the twenty-first century the role of internal auditors was more that of management educator, promoting ethical practices and independence (Benson, 1992). Elliot and Schroth's (2002) prescription of the audit process as the means by which a company's accounting can be checked, by specialist forensic auditors, can show an extension of such professionalism. This still causes issues regarding objectivity and *accountability*, which questions whether financial statements can be completely accurate and true if the checkers themselves cannot be checked. Therefore, success of the system still relies on the assumption that the ethics and practices of top professionals are sound in quality.

Tyler (2009) examines self-regulation as the moral ethics and professional expectations derived from the legitimacy of rules and principles. Professionalism can therefore be identified as a philosophy of internal monitoring and culture. Firstly, the ethical code outlined by the International Federation of Accountants details the core principles that professional accountants should adhere to in order to support the profession; integrity, objectivity, competence, confidentiality and professional behaviour (IFAC, 2010). However, Robb (1992) suggests accountants have become very effective at evading the professional systems, giving greater emphasis on the need for standards. Moreover, towards the end of the twentieth century the US National Association of Accountants set out reinforced general guidelines for accountants, which included the same key values. The principles helped accountants align their practices against



 
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objective factors, which were connected to the public interest and trust in the profession, along with continued documentation and transparent reasoning (Shaub and Brown, jr., 1994). A thorough process of continuous checking alongside a set of idealistic criteria can in part achieve a more consciously aware behavioural environment in corporations, shaping managers and other employees within an accounting context.

Secondly, the act of whistle blowing relates the exposure to outside private corporate information that is misleading for society (Fisher and Lovell, 2009). However, Davis (1996) criticises whistle blowing because it is an allegiance to a corporation and so is a free choice, with wrongdoing expected to be exposed at some point in time regardless. Also, Fisher and Lovell (2009) recognise that whistle blowing, although arising from good intentions, will likely damage both the individuals and the corporations implicated. The internal self-regulatory mechanisms are therefore set-up to ease such tensions, usually through corporate governance procedures and confidentiality laws (Fisher and Lovell, 2009). Furthermore, within a European context, both silent accounting – information exposed from inside a corporation – and shadow accounting – information exposed from outside a corporation – reveal a gap in the current accounting profession, and provide new perceptions of *accountability* mechanisms (Dey, 2007).

Thirdly, contrary to the suggestion that *white-collar crimes* can evade the law indefinitely, Vinten (1994) observes that the disclosure of such unscrupulous corporate acts has risen in its commonality and reaches to a greater number of stakeholders. This does not imply that the wrongdoing in this context has itself become less prevalent, for it may instead show that people have become more conscious of the widespread impact of immoral operations. Vinten (1994) reiterates that the separation of ethical persons from unethical entities dates back to the eighth century and was only accorded significance from the mid-twentieth century. Such an exploration is summarised by Shaub and Brown, jr. (1994) who argue that during the latter part of the twentieth century the accounting profession went through significant ethical accounting standards as a reaction to accounting frailties. Thus acceptance of time and experience, not least through scholarly research, can provide accountants with valuable lessons in order to create a wider framework of professionalism.

Furthermore, Moore (1992) argues that the *accountability* of corporations and employees is not equivalent and so corporate crime is not always the result of individual choice. This implies that both accounting firms and accountants themselves must ascertain *accountability*; explained in the



 
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Sarbanes-Oxley Act of 2002 (Geis, 2007). Bryce (2003) argues that the US financial system took its biggest shock in history after Enron's unethical derivatives trading operations. Finally, Pickett and Pickett (2002) question the authority of accountants' work if evidence of techniques and past company actions is not available or accurately formed. Accountants are subjected to the corporate context in which they work, so a larger scope of regulation is needed to rectify the problem of *white-collar crime*.

## Ethics and Solutions of White-collar Crime

To reduce the severity and likelihood of *white-collar crime* a number of policies could be employed in the corporate world. Specifically, a greater awareness of the conflict between perception and reality of *white-collar crime* should be sought, an improved set of professional mechanisms should be implemented, and a more transparent system of accounting should be imposed. The command-and-control convention is most appropriate for *white-collar crime* because it reintroduces the fear of excessive punishment if such activities are undertaken.

Firstly, Brightman and Howard (2009) advocate for social policies that bring *white-collar crime* to the forefront of public attention and scholarly research. To tackle any social problem society must not only appreciate the issue as important, but also understand it comprehensively. The widespread perception that *white-collar crimes* do occur and have a major impact on the economy is therefore paramount for any future success in eradicating the crimes. However Brightman and Howard (2009) argue further that an endemic problem of *white-collar crime* lies in the constant conflict of interest between corporations and governments. This argument reveals that a common human trait is conversing with other institutions to aid growth, competitiveness and freedom of operations. In order to include society as a more prominent stakeholder, redefined job roles and expectations for accountants could be introduced, resulting in negative consequences to society connected with financial punishments. If accountants are the financial key makers then more exposure and justification of their *accountability* is needed through reports.

Secondly, the introduction of professionalism through certified exams gives accredited worth to members of accounting bodies whilst promoting skills and knowledge relevant to ethical *accountability* (Robb, 1992). Professional accounting bodies, such as the International Accounting



 
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Standards Board (Deloitte, 2011), the Association of Chartered Certified Accountants (ACCA, 2011) and the Canadian Institute of Chartered Accountants (CICA, 2004), aim to harmonise practices in order to benefit all the users of accounting.

Moreover Bryce (2003) calls for companies to employ a cost-accounting system alongside the misleading mark-to-market method, so that users of accounts can identify the valuations companies apply to their balance sheets. Also Bryce (2003) instigates that by empowering the Securities Exchange Commission with money and personnel the auditing and consulting services from the same accounting firm can soon be eradicated. Alternatively Dealy and Thomas (2007) stress that a combination of a numerical performance scorecard system and a workplace environment, which measures what is spoken and what is acted on, will yield the best results for personal *accountability* to be used in the professional environment; developed over time. There could therefore be merit in the creation of a quantitative *accountability* model, whereby a system of numbering would allocate the traits and roles of individual accountants attached to the larger public interest. This would quantify relevant links, allowing checks to be made to tighten up accounting practices. The implausibility of such a model creates a huge difficulty without extensive research undertaken.

Thirdly, Tyler (2009) examines the command-and-control convention of reducing *white-collar crime* in a company context, which restricts conduct via external sources equipped with penalties. Shover and Hochstetler (2006) argue that as *white-collar crime* damages Western economies culturally and financially, with little acknowledgement of victims, the promotion of government powers to use prison sentences should rebalance the issue. Also, Calavita, Pontell and Tillman (1997) identify that the capitalist system of financial instruments needs to be further controlled and researched in order to affect the facilitation of future *white-collar crime*. Such suggestions recognise the trade-off between the control of *white-collar crime* and corporate autonomy, as well as society's protection and individual choice, implying that spot checks in corporate affairs should be made (Grabosky and Sutton, 1989). An idealist solution in the context of Australia has proposed that a complex and strict analytical approach to accountancy *accountability* could be introduced to any improper behaviour (Grabosky and Sutton, 1989).

Felson (1998) understands that the main principle in eradicating *white-collar crime* is to provide more difficulties for perpetrators to achieve their aims, creating a more complete accounting checking process that includes more people. This approach does not deal with the core of the issue



 
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although it does deal with the practical aspects. Whereas Tupy (1927) offers the long-term sustainability solution, stressing that the teaching of accountancy should remain rooted in the moral ethics that protect society's interests. The issue is still relevant today, with the emphasis on teaching the negative consequences of poor *accountability* mechanisms and appropriate ethical business models in the hope of producing more 'accountable accountants', leading to fewer chances of future scandals (Frank, Ofobike and Gradisher, 2010; Williams and Elson, 2010). Unerman, Bebbington and O'Dwyer (2007) also help provide more of the resource material relevant for university courses.

## Conclusion

This study has revealed that as the notion of *accountability* has its characteristics firmly rooted in subjective interpretation (Mulgan, 2000) there is great difficulty in regulating it through objective means. As a result *white-collar crime* is an ambiguous area of criminology to expose. Even if *white-collar criminals* are identified through one of the means explored in this study, the damage in many cases has already been done. Accountants have been given a great deal more *responsibility* over the course of history, allowing them larger influence on the financial world. This has been the case because of their important role in society, providing the expertise of professionals with specialist knowledge and experience, along with the appearance of class and respectability.

The occurrence of *white-collar crime* can be seen as a failure of regulatory bodies within the profession and outside, but the future prospective mechanisms must seek a more active approach if progress is to be made. It would also be impractical to believe that throughout the corporate world the adherence of rules and ethical principles is not paramount to sustainable success for *accountable* accountants. However, a common trait of human beings is rule-breaking and erroneous behaviour, so a major shift in personal values may be the starting point at which to begin ingraining objective morals in the accounting culture.

This study aimed to understand the issue of *white-collar crime* and its *accountability*, but continued extensive research is needed for more statistical verification as to which method(s) would be most effective in tackling the problem. In summary accountants are *accountable* to the legal system, their overseeing bodies and fellow professionals, corporations, the wider society and themselves through



 
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their professional and ethical conduct. Unsurprisingly there needs to be far more work on the subject if such an ideal state of affairs is to encompass the entire profession.

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