CEOs AND THE ROLES THEY PLAY IN CORPORATE MISCONDUCT: AN EXAMINATION OF CEO CHARACTERISTICS

By

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A DISSERTATION PRESENTED TO THE GRADUATE SCHOOL OF THE UNIVERSITY OF FLORIDA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

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My study used quantitative and qualitative methodologies to ascertain if there are certain characteristics of chief executive officers (CEO) of Fortune 500 companies that contribute to violations committed by the company. In other words, controlling for organizational characteristics, are certain individual CEO characteristics associated with misconduct? My study used aspects from the business literature and criminological theories to predict Securities Exchange Commission (SEC) violations for the years 2000 through 2006. In this sample, measures derived from the business literature were better able to predict SEC violations than those measures derived from criminological theories. Furthermore, specific individual characteristics such as age, number of marriages, number of children, where and when CEOs received their education, extracurricular activities, and other such measures are discussed.

CHAPTER 1
INTRODUCTION

It is important to study corporate crime because of the economic damages that large, for-profit organizations can cause. Recently, we have observed detrimental public and economic consequences (i.e., blows to the stock market and pension funds) stemming from illegalities discovered among corporations such as Enron and WorldCom. While these two examples are extreme, they do draw attention to the immense problem of corporate corruption. In fact, since the mid 1980's, citizens and politicians have started to become more concerned with the problem of corporate crime than ever before (Cullen, Maakestad, and Cavender, 1987). Cullen et al. (1983:487) found that over 55% of the respondents in their sample agreed that white-collar crime "does more to undermine the morality of our society" than street crime, and very few of the respondents harbored reservations about the criminal sanctioning of white-collar offenders. Similarly, Schoepfer et al. (2007) found that even though the general public believed street offenders would be sentenced more severely than white-collar offenders in the criminal justice system, they believed both crime types to be equally serious.

Studies have also suggested that white-collar and corporate crimes undermine the social fabric of society through the abuse of power and violations of trust (Meier and Short 1983; Shapiro 1990; Geis 1992), with consequences that may be more serious than those of conventional street crimes (Cullen et al. 1983; Sutherland 1983). Similarly, Hans and Ermann (1989) found that respondents applied a higher standard of responsibility to the corporation that caused harm than to the individual within the corporation who caused the same harm; the corporation as a whole was judged to be more reckless and more morally wrong than the individual actor. At a recent conference, Friedrichs (2004b) estimated that the cost of white

collar and corporate crime exceeded $400 billion annually. As such, there is no denying the fact that white-collar and corporate crimes are realistic societal problems.

One issue that has plagued white-collar crime research is the lack of consensus on how to define the phenomenon. Definitions vary according to their orientation; some define the offenses in terms of the offender, some define it in terms of the offense itself, and still others define it in terms of organizational culture. However, the most common definitions of white-collar crime include terms such as position of power, trust, and influence; and generally refer to crimes committed by a individuals against, or on behalf of, the company/organization for which they work (Sutherland, 1940; Helmkamp et al., 1996). The actual term "white-collar crime" was first coined by Edwin Sutherland in his 1939 American Sociological Society presidential address (Geis et al., 1995; Sutherland, 1940). Sutherland was addressing the misconception that crimes were only committed by the impoverished lower class and argued that "criminal behavior of business and professional men" were often neglected in the biased samples of "conventional explanations" (Sutherland, 1940:2). The term "white-collar crime" has expanded from Sutherland's (1940:1) original definition that singled out "respectable" upper class citizens to more broad definitions that do not necessarily delineate socioeconomic status; rather they focus on the opportunity to commit the act while in the course of an occupation. Some even argue that the definition has become too broad, and that white-collar criminality suffers from "loose and variable usage" (Tapan, 1947:100).

Another trend in white-collar criminology is the delineation between corporate crimes and occupational crimes. Corporate crimes involve offenses that are committed on behalf of an organization to increase profits and minimize costs. These offenses come in forms such as price-fixing, falsifying records, or simply cutting corners (Ermann and Lundman, 2002). Occupational

offenses, on the other hand, are offenses that individuals commit to benefit themselves during the course of their legitimate occupation. These offenses include embezzlement and fraud, and have a tendency to hurt, rather than benefit, the organization for which the individual works. Then, of course there are instances when both the individual as well as the corporation can benefit from the crime. For example, an individual may receive incentives (e.g., bonuses, or staying employed) for taking actions (in this case illegal actions) to make the company appear more profitable. In these instances, individual's actions and choices are shaped to some extent by the immediate social setting, which in turn is influenced from the larger institutional environment and culture. For purposes of the current study, Braitwaite's (1984:6) definition of corporate crime will be utilized: "conduct of a corporation, or of employees acting on behalf of a corporation, which is proscribed and punishable by law." Regardless of how it is defined, there is a general consensus that the costs of white-collar crime greatly exceed the cost of all other street crimes, and it has been estimated that white-collar offenses kill and maim more people each year than violent street crimes (Messner and Rosenfeld, 2001; Geis et al., 1995; Meier and Short, 1983).

The current research efforts examine the underlying influences of corporate executive officers (CEO) on corporate misconduct. Specifically, whether there are certain characteristics of CEOs that contribute to the misconduct committed by themselves and/or their companies. One particular characteristic of interest in this study is when and where the CEO received his/her education. Furthermore, organizational characteristics, CEO demographics, and organizational performance will be examined in an integrated micro-macro approach in which CEO's behaviors are influenced to some extent by their own traits and to some extent by the wider social environment of the organization.

The business literature has examined these particular characteristics of interest as they relate to organizational success, yet these same characteristics have yet to be fully empirically explored in terms of organizational malfeasance. For example, Boone et al. (1988) conducted a comprehensive analysis of 243 CEOs in America's largest corporations to look for commonalities among the leaders. They found that while the CEO pool was diverse, the CEOs did share several background elements, particularly education and extracurricular collegiate activities. Interestingly, the authors found trends among CEOs overall, and trends among CEOs within different industries. For example, 38% of all CEOs surveyed participated in intercollegiate sports; football was the most common sport played by students who went on to become CEOs in the service industry, baseball was most common sport played by CEOs in transportation and food product industries, and basketball was the most commonly played sport among CEOs in the retail and wholesale firms. The authors found other similarities among CEOs in terms of college major, high school and college employment, and other extracurricular collegiate activities. They conclude that there does appear to be early signs leading up to a CEO business career, the question remains though, whether there are early signs leading up to a CEOs violative business career.

Daboub et al. (1995) presented a theoretical piece in which the authors hypothesized about top management team characteristics and influences as it related to corporate offending. Among others, they hypothesized that top management teams that were characterized by younger officers, longer tenure in the positions, and MBA degrees would all increase the likelihood of corporate illegality. Specifically, Daboub et al. (1995) hypothesized that 1) illegal activity becomes weaker with increasing average age of the top management teams, 2) the functional background of the executives influences the way he/she perceives a situation and may influence

willingness to engage in illegal behaviors, 3) corporate illegality will be stronger for companies with a higher percentage of MBA degrees among their top management teams, and 4) active participation in illegal activities becomes weaker as the military experience among the top management team increases.

The above hypotheses as they relate to management *teams* have not been tested. However, Simpson and Koper (1997) did look at certain CEO and organizational characteristics as it related to corporate offending. They hypothesized that firms headed by powerful sales and marketing executive officers would have higher levels of antitrust offending, yet these hypotheses were only partially supported among low-performing groups only. The current study is a departure from Daboub and colleagues' (1995), hypotheses, but rather than looking at teams, the current efforts examine the individual corporate leader within the larger organizational structure. This study also extends Simpson and Koper's (1997) article by including previously unexamined individual CEO characteristics such as education, martial status, nationality, extracurricular collegiate activities, etc. as they relate to corporate offending. We know nothing about corporate misconduct until after-the-fact. If it is possible to find similar characteristics among CEOs whose companies have been charged with misconduct then, in an ideal world, it may be possible to make the first step in preventing future corporate misconduct.

CHAPTER 2
LITERATURE REVIEW

When examining corporate crime, prior research has focused on the internal corporate structure, the external economic and political environment of corporations, factors affecting case outcomes and sentencing, and characteristics of those individuals who are implicated in the offense (e.g., Jamieson, 1994; Simpson, 1986; Clinard, 1983; Shover and Bryant, 1995; Weisburd et al., 1990; Wheeler et al., 1988; Hagan et al., 1980; Hagan and Palloni, 1986). Typically, corporate offenders tend to be older, male, white, are highly educated, come from decent neighborhoods, maintain stable familial relationships, have high socio-economic statuses, and are prominent in their community and/or church (see Friedrichs 2004a). In other words, corporate white-collar offenders do not generally fit the commonly held description of a "criminal."

Jamieson (1994) examined the phenomenon of corporate crime, specifically antitrust violations, among Fortune 500 manufacturing firms in terms of internal corporate structure and the economic environment. Data was gathered from the antitrust filings compiled by the *Commerce Clearing House* "Trade Cases" volumes and "Trade Regulation Reporter," and the Census Bureau's "Census of Manufacturers" for a total of 227 company cases during the years 1981 to 1985. Jamieson was interested in identifying corporate settings that were most conducive to decisions to violate antitrust laws, the legal and organizational factors that influence case outcomes and future antitrust activity, and the influences of official political parties on the nature and frequency of corporate misconduct.

In terms of particular corporate settings and case outcomes, Jamieson discussed some interesting, yet contradictory findings. Overall, the author found that large, poorly performing companies in relatively profitable industries and with fewer managers were the firms most likely

to be involved in antitrust activities. Although poorly performing companies were more likely to be involved in antitrust activities, it was the relatively successful companies in industries that were more likely to be found guilty than those less prominent in their industry. Similarly, while companies operating with fewer managers were more likely to engage in antitrust activity, they were also the companies that were more likely to be found "not guilty" in antitrust litigation. In terms of case outcomes, Jamieson also found that Fortune 500 manufacturers lost antitrust cases to dealers and distributors less frequently suggesting that the more powerful manufacturer is able to manipulate smaller "downstream" associates who critically depend on their supplier.

While the criminal justice system is trying to take a more aggressive stance against corporate and white-collar misconduct through swifter action, heavier fines, and longer prison sentences, there are still several discontinuities between the two and perhaps it are these discontinuities that lead to a general "unfairness" seen within the criminal justice system. Hagan, Bernstein, and Albonetti (1980) were interested in examining the differences, if any, in judicial procedure for conventional and white-collar offenders. They examined over 9,000 criminal cases processed in ten federal districts and found that overall, prosecution strategies were tough and sentence severity was high. However, sentencing tended to be much more lenient for college educated white-collar offenders, regardless of the charge. Similarly, Hagan and Palloni (1986) found that federal white-collar offenders were being sent to prison at a much greater frequency after the Watergate scandal was uncovered, yet their sentence length was still significantly shorter than those convicted of conventional street crime. Structural theories of white-collar crime and punishment, as proposed by Hagan and Parker (1985), predict that persons located in positions of power will be less likely to be criminally prosecuted than those not located in positions of power. As Clinard and Yeager (1980:297) suggested, "perhaps the

strongest argument to be made for criminal sanctions against individual corporate offenders is the effect unequal justice has on the rest of society."

Baucus and Near (1991) looked at illegal corporate behavior and attributed "personality variables" to the firms themselves. The internal variables that were hypothesized to lead to criminal behavior included poor performance, large size, and low resource slack. The authors also examined industry membership "as some industries are more likely than others to have members that engage in wrongdoing . . . " (1991:12). However, contrary to their hypothesis, firms that were performing moderately well or good were more likely (yet not significantly more likely) to engage in illegal behavior than poorly performing firms. Consistent with predictions, firms that were moderately larger were ten percent more likely to engage in illegal behaviors than smaller firms. The authors also found that industry mattered; firms operating in the foods, lumber, petroleum refining, and automobile industries were more likely to have a criminal record than firms in other industries.

Paternoster and Simpson (1996) tested a rational choice model of corporate crime using vignette surveys with MBA students and corporate executives attending an executive education program. Respondents answered four different scenarios describing price fixing, bribery, manipulation of sales statistics, and violations of Environmental Protection Agency emissions standards. They found that the moral climate of the firm was a significant predictor of offending and that the offenses were more likely to occur if it was described as being a normal practice in the firm. Also, moral inhibitions against an act proved to have a significant deterrent effect once costs and benefits of the act were controlled for. They also found that intentions to engage in corporate crimes were higher for males and those with fewer years of business experience.

It has been hypothesized that as organizational size increases, the likelihood of engaging in illegal activities also increases (Baucus and Near, 1991; Jamieson, 1994; Sutherland, 1983; Cochran and Nigh, 1987). With increased size comes increased coordination problems in terms of communication and structural controls. Larger organizations tend to be more decentralized and opportunities for engaging in illegal behaviors may increase. Sutherland (1983) gathered information on various criminal activities for 70 major corporations from 1900 to 1944 and found that even though larger firms did tend to have more violations, the association was not significant. Similarly, Clinard (1979) found that firm industry and characteristics (e.g., size and assets) were not strong indicators of major corporate violations, yet, they were significant predictors of non-minor corporate violations.

Prior Behavior

Past criminological research has shown that the best predictor of future behavior is past behavior (Vold et al., 2002). Therefore, it is quite unsettling to know that it is not uncommon for corporate executives to have some sort of criminal history. Weisburd et al. (1990) found that more than twenty-five percent of white-collar offenders from higher occupational positions had some sort of criminal record. Clinard and Yeager (1980) found evidence that when the corporation discovered internal misconduct, oftentimes there was little or no punishment for the offender. They also found evidence that convicted corporate executives who were fired from their positions were sometimes rehired immediately upon release from prison (for specific examples see Clinard and Yeager, 1980). More often than not, many corporate offenders are just transferred to another position within the same company or retained as “consultants” with the potential to make more money than in their previous position (Clinard and Yeager, 1980). It has even been suggested by some that one way to reduce corporate criminality would be to

disqualify upper level managers convicted of corporate crimes via a court order barring the individual from future managerial positions, similar to the way lawyers are disbarred and doctors lose their licenses to practice medicine when charged and found guilty of violating laws or standards (McDermott, 1982).

In the organizational sense, Simpson and Koper's (1997) study of corporate criminality focusing on CEO backgrounds (i.e., employment history) and firm performance, found that the best predictor of current crime was past crime. Similarly, Baucus and Near (1991) found that firms with three or more prior violations were more likely to behave illegally than firms with only one prior violation. Sutherland's (1983) ground breaking study on corporate crime from 1900-1944 revealed that an extremely high percentage of corporate violators were repeat offenders. Sutherland noted that this recidivism rate was higher than that for the average prisoner in state and federal prisons, yet in line with the recidivism rates of professional career criminals. Knowing that the best predictor of future behavior is past behavior, it is logical to think that corporate illegalities may occur again. Perhaps Geis (1973:194) put it best when he said, "Why put the fox immediately back in charge of the chicken coop?"

CEO Characteristics

Empirical research in the business field has frequently examined CEO characteristics as they related to managerial actions and organizational outcomes (Rajagopalan and Datta, 1996). Research in the business and management field have found that CEO characteristics (i.e., age, education, employment history) play a significant role in company performance (Karami et al., 2006; Child, 1974) and willingness to spend money on research and development (Kimberly and Evanisko, 1981). One study in particular found that education, professional experience, company stock holdings, and age may exert unexpected influences on CEOs approach to

spending money on corporate research and development (Barker and Mueller, 2002). Interestingly, a review of past research has shown that poorly performing companies are more likely to hire CEOs from outside of the company. Similarly, organizations that are more likely to engage in risky activities are more likely to hire CEOs who are young, have low organizational tenure, and are outsiders to the particular company (Rajagopalan and Datta, 1996).

While most of the business and criminological literature focuses on characteristics of CEOs as they relate to organizational factors, very little, if any, of the research has focused on CEO characteristics as they relate to criminal misconduct of their corporation. One particular exception in the criminological literature is Clinard's (1983) study of the influence of internal forces on ethical and unethical behavior among corporations. Upon interviewing sixty-four retired middle managers of Fortune 500 companies, Clinard found that the most significant influential factors were the ethics and ambitions of top management. This gap in the literature may be due to the controversies found in the leadership literature as to how much influence leaders actually have. A general review of the leadership literature appears to produce two opposing views:

- Leadership roles are merely symbolic and leaders have no real control or influence over their teams.
- Leaders have a definite influence in terms of ethics, morale, and performance.

On the first point, Lieberson and O'Connor's (1972) study of 167 companies in different industries found that CEOs had very little to no impact on company performance. In fact, using variance explained methods, the authors found organizational characteristics (i.e. type of industry, external economic climate) to have the largest impact. Similarly, Cohen and March (1974) interviewed university and college presidents, their secretaries, top administrative officers, and student leaders and found that these people all believed the president of the

university had much more power than they actual did. After examining the university political system, the authors concluded that for the most part, presidents do not have much influence over academic policy even though they may believe they do; their roles are more symbolic than influential in the overall functioning of the university/college.

On the other side of the argument, there are those who suggest that leadership roles (e.g., behaviors, decisions, styles) do in fact matter. For example, a comprehensive review of the leadership literature by Hogan et al. (1994: 494) came to the conclusion that "leadership matters." Barnard (1938) suggested that it is the function of the executive to create an awareness of the common values and goals of the organization and it is this awareness that contributes to organizational performance and efficiency. Hackman and Wageman (2005) suggested that leaders contributed to organizational effectiveness by helping members work together to enhance effort, task performance efficiency, and the proper utilization of members' skills and knowledge. However, Hackman and Wageman (2005) do note that leaders do not have control over external factors and therefore their abilities to enhance internal performance may be limited. The authors also note that when organizational and other external factors inhibit the leader's control it becomes "far easier for a leader to undermine team performance than it is to facilitate it…" (2005:51). While the authors do not make the connection, it may be possible that it is in these situations where violations may occur, either through lack of exertion of control all together (e.g., abandonment), or exertion of control in the wrong areas.

Nonetheless, as Pfeffer and Fong (2004) comment, it is the mission of many (if not most) American business schools to produce leaders who would ultimately be judged on their abilities to improve organizational performance. If we follow the former argument that leaders are merely symbolic and have no influence, than these business schools are preaching an

unachievable concept, which could create conflict/strain in terms of the disjunction between expectations and actual achievements. This disjunction, according to Agnew (1992), could lead to feelings of anger, dissatisfaction, or resentment, which could ultimately lead to deviant/criminal behavior. However, if we follow the latter argument in which leaders do have influence over corporate performance, then one area of interest would be to examine where top executives received their formal education, what degrees were earned, and when those degrees were awarded.

It would be interesting to see if offending companies are headed by CEOs who share similar educational backgrounds (e.g., degrees earned, schools attended). Research has suggested that behaviors and organizational reward-cost analyses can be learned in school and carried into the working environment (Michaels and Miethe, 1989; Sims, 1993); specifically, these studies have focused on cheating in class. For example, Sims (1993) gathered self-report data from working MBA students about their experiences with academic as well as workplace dishonesty. Using simple correlations, Sims (1993) found a positive relationship between the range and severity of academic and workplace dishonesty. Those respondents who admitted to a wide range of academic dishonesty also admitted to a wide range of workplace dishonesty and those who reportedly engaged in severely dishonest academic behaviors were more likely to report engaging in severely dishonest workplace behaviors. Some have even theorized that academic cheating should be categorized with behaviors such as fraud, embezzlement and corruption (Michaels and Miethe, 1989; Roberts, 1986). Michaels and Miethe (1989:870-871) suggested that academic cheating was similar to other forms of deviant behavior because much like other deviant activities, "…cheating involves learning mechanisms and the weighting of

possible costs and benefits, it is motivated by external pressures and personal desires to achieve, and it may be deterrable by certain and severe sanctions."

One study out of Rutgers University found that of business majors, economics majors were the most likely to report cheating while accounting majors were the least likely to report cheating (Moffat, 1990). Another study of accounting students in Australia, South Africa, and the UK revealed that 38% of the students in all three countries indicated a willingness to plagiarize a class assignment if there were no risks involved whereas 53% indicated a willingness to cheat when modest monetary rewards were included (Haswell et al., 1999). The authors also assessed the effects of varying deterrent factors (e.g., increased risk of detection coupled with increased penalties), and revealed that among the accounting students, an increased risk of detection was not an effective deterrent to academic cheating unless it was followed by a strong penalty. Similarly, Tibbetts and Myers (1999), using scenario surveys of 330 university students, found that perceived sanctions and previous experiences of being caught cheating did not appear to deter college students' present intentions to cheat on exams. Michaels and Miethe (1989) gathered self-report data on academic cheating from college students and found that anti-cheating campaigns and opportunity reduction strategies (e.g., warnings printed on syllabi, academic honesty pledges, etc.) were not effective control measures against academic dishonesty. In fact, the authors concluded that opportunity reduction strategies utilized by professors may actually "stimulate more ingenious cheating methods" (1989:881). These findings have very serious implications from a policy standpoint; if academic cheating can indeed be related to organizational cheating (e.g., cheating in the workplace), then authorities will need to increase the certainty and severity of white-collar crime penalties in order to produce a higher deterrent effect to others contemplating the idea.

Rather than looking at the individual's ethical standards as they relate to personal cheating, another implication of the educational experience is whether or not the academic programs require ethics training to begin with. While a rather high percentage of American business schools require students to take ethics courses (Schoenfeldt et al., 1991), it has been suggested that it is not merely the quantity but the quality and format that matter (Andrews, 1989; Hosmer, 1988). Studies have suggested rather conflicting information regarding the effectiveness of ethics education in college; some studies have found that ethics training in college is effective at increasing moral awareness (Arlow and Ulrich, 1980; Cohen and Cornwell, 1989; Gautschi and Jones, 1998; Smith et al., 1999) while others found no significant effects (Martin, 1981, 1982; Arlow and Ulrich, 1985; Wynd and Maget, 1989) and still others found negative effects among business students (McCabe et al., 1994). Arlow and Ulrich (1980) examined senior level undergraduate business students enrolled in a Business and Society course and found that the course had a positive effect on the student's level of ethical awareness, yet a follow-up study four years later revealed that these effects were short lived (Arlow and Ulrich, 1980). Black (2005) has even suggested that economics and law professors provide educations that leave society and corporations more susceptible to what he refers to as control fraud. However, ethics training in college may not be effective regardless of how the courses are administered if students care more about self-interest than about moral righteousness. Ultimately, as Clinard and Yeager (1980:273) suggest, "Corporate profit, not morality, is the ultimate test of effectiveness," and therefore corporate executives and employees alike may change their standards once they enter the business world, as the ultimate driving force is money, not morals. Interestingly, in interviews with CEOs, Wood and Vilkinas (2005) found that CEOs rarely attributed their success to their having integrity, having a balanced approach, or learning

self-awareness. Instead, these CEOs attributed their success to having an achievement orientation and using a humanistic approach when dealing with employees. Likewise, General Electric's famed CEO, Jack Welch, laid out his rules for successful corporate management which included such aspects as annually ranking and eliminating the bottom 10% of employees and building a market-leading company by being number one or number two as the those ranked lower are irrelevant (Welch and Welch, 2005). Welch's get-tough, take no hostages rulebook is one that CEOs across the country have been influenced by and have tried to follow, regardless of the seemingly unethical persuasion in his management style. However, recent interviews with CEOs have suggested that Welch's rulebook is no longer applicable and CEOs are beginning to act in opposition of Welch's propositions as times (and the economy) have changed (Morris, 2006).

There is no doubt that MBA programs have changed in the past twenty years, yet the question remains on how much they have changed in light of the negative corporate/economic impacts in the past ten years. Zinkhan et al. (1989) found that when resolving ethical dilemmas, MBA students in the late 1980s were more likely to justify their decisions in terms of its outcomes as opposed to using moral idealism. A more recent study by Fisher et al. (1999:168) suggested that students today do express "a relatively high degree of concern about the ethical treatment of consumers." Yet, the question still remains of whether these ethical concerns will remain once the students enter the workforce. If increased ethical considerations are a generational effect, then optimistically, corporate crime will decline in the future with this next generation of officers. Yet, if Fisher et al. were picking up on an experiential effect rather than a generational effect, than it may be possible that corporate crime levels will remain stable over time assuming all else remains constant. This, however, is merely an empirical question that remains to be seen.

Hartman (1998:547) suggested that "we must go beyond virtues and refer to character, of which virtues are components, to grasp the relationship between moral assessment and psychological explanation." In other words, focusing solely on moral inclinations is not appropriate, we must look at the bigger picture of what type of *character* the person under question possesses. Furthermore, Hartman (1998:550-551) warned managers that certain kinds of organizations may have an effect on employees' character; "the willingness to take risks can be learned as a habit more easily than can the willingness to take the calculated, justified risks that true courage requires." Gross (1980) suggested that while some offending officers may be criminally inclined, the majority are neutral and therefore receptive to pressures for illegal action, and these individuals may be promoted/recruited specifically for their receptability. Similarly, in Black's (2005) book on the Savings and Loan debacle, he suggested that although morals do matter, people are capable of behaving immorally while at the same time believing themselves to be morally superior. Unfortunately, this idea of corporate and individual morality is not one that can be easily examined in the corporate/white-collar realm.

Perhaps one must not only look at the CEOs actions, but how he/she is perceived by themselves and others. Reckless and colleagues (1957) found that the concept of "self and others" is the component that helps explain why some juveniles engage in delinquency/crime while others refrain; it is not necessarily what the person believes or does not believe in (e.g., morals), it is how the person perceives of him/herself and others and how they portray that "self." On a similar note, the limited research on the idea of the desire-for-control (Burger and Cooper 1979) – a psychological concept in which individuals have a general desire to be in control over everyday life events – and corporate crime suggests that there is indeed a disjunction on the ability to control oneself (Hirschi and Gottfredson's (1990) general theory of

low self-control) and the desire to exert control (Piquero et al., 2005) and that it is this desire-for-control that is associated with corporate offending more so than the ability to control oneself (low self-control).

Interestingly, a recent article published in USA Today noted a link between marital infidelity and white-collar offending. Former Tyco CEO Dennis Kozlowski, WorldCom's Bernie Ebbers, General Electric's CEO Jack Welch, Enron's Jeff Skilling, and other top executives at Enron have all been guilty of extra-marital affairs (O'Donnell and Farrell, 2004). The U.S. Attorney for Maryland, Thomas DiBiagio, suggested that philanderers and white-collar offenders may have similar characteristics; "if their life is a lie, it's not confined to their personal life" (O'Donnell and Farrell, 2004). This sentiment is echoed in O'Donnell and Farrell's (2004) interviews with psychologists and human resource specialists as well. Several companies now look deeper into the lives of potential candidates for evidence of cheating (or other morally reprehensible behavior) in their personal lives for fear that it will manifest into cheating in their corporate lives. However, due to the lack of statistics on extramarital affairs of top executives, no empirical evidence exists to verify this link, at this point, it is merely anecdotal.

Sex

Not surprisingly, studies of sex differences in ethical decision-making have found that females tended to be more critical than males in terms of questionable business practices and tended to emphasis ethical behavior more so than male respondents (Fisher et al., 1999; Haswell et al., 1999; Whipple and Swords, 1992; Jones and Gautschi, 1988). The methodology of many of these studies involves vignette surveys of business students who indicated what they would do in hypothetical scenarios; they do not measure actual behaviors. So while it may be that female respondents appear to have a higher emphasis on ethical behavior than male respondents, what

actually happens in real world-situations remains to be seen. However, gender research in the field of white-collar whistleblowing has suggested that women are indeed different from men in how they react to situations within an organizational setting. For example, Helen Fisher (1999), an anthropologist, has suggested that it all boils down to the way children learn to play. She argued that boys struggle on the playground and learn to give and take orders placing themselves into hierarchies. On the other hand, girls do not place themselves into hierarchies and are more likely to change the rules if someone gets upset, therefore women are less likely to play by the rules if they do not think the rules are fair. Fisher (1999) suggested these traits extended into adulthood and organizational life thus making women less sensitive to the hierarchical structure of organizations and therefore more likely to come forward with allegations of corporate wrongdoing.

Nevertheless, there still remains a gap in the literature when it comes to CEO characteristics and criminal misconduct. This may be due to the fact that collecting this information is extremely tedious and time-consuming. However, it is not without merit. If certain characteristics of CEOs of corporations accused of misconduct can be identified, than it may be possible to "profile" those individuals in the hopes of reducing corporate misconduct in the future by recruiting and hiring the "right" leaders.

Theoretical Guidance

Few comprehensive theoretical explanations of corporate crime have been developed. Most corporate crime researchers push toward a complex stance on micro-macro explanations to best explain misconduct. As discussed earlier, Simpson and Koper's (1997) piece on CEO backgrounds hypothesized, among others, that corporate antitrust violations would be highest among firms with certain types of CEOs. In other words, they hypothesized a complex

interaction effect between CEO characteristics, their roles in the organization, and organizational characteristics. Similarly, Daboub et al. (1995) theorized that top management characteristics would have an effect on the relationships between context and corporate illegal activity. Departing from these particular studies on the micro-macro link between corporations and the individuals who control them, this study aims to examine previously unexplored individual characteristics as they relate to corporate offending. Furthermore, this study is not guided by any one particular criminological theory. Instead, it incorporates several aspects of different theories such as control theory, strain theory, and differential association/social learning theory.

Control Theory

Earlier versions of social control theory suggested that individuals commited crimes not because of the strength of forces driving them to do so, but rather they commited crimes because of the *weakness of forces restraining* them from doing so (Matza, 1964; Nye, 1958; Reiss, 1951). Hirschi (1969) argued that all individuals were free to engage in delinquent acts, but it was their strong bonds to conventional social groups (e.g., school, family, peers, etc.) that restrained them from doing so. Hirschi (1969) contended that these bonds were composed of four interrelated elements: *attachments* to conventional others, *commitments* to conventional lines of action, *involvements* in conventional activities, and *beliefs* in a common value system. The stronger an individual's bonds to these conventional others, the less likely they would be to engage in delinquent/criminal activity. Control theory has been extensively tested with conventional crimes such as juvenile delinquency (e.g., Agnew, 1991; Cernkovich and Giordano, 1987; Hirschi, 1969; Matsueda and Heimer, 1987; Reiss, 1951) yet it has rarely been applied to the study of white-collar crime (for an exception see Lasley, 1988).

When looking at white-collar crime in terms of the original conceptualization of control theory, one might expect the theory to have the opposite effects on this type of crime than it would on street crime. For example, if a CEO is strongly bonded to his/her company (a conventional other), he/she may be more likely to engage in white-collar offending in order to see the company succeed. However, it has been suggested that control theory does indeed work for white-collar crime, the emphasis of the main socializing agent just needs to be shifted away from society and placed on the corporation; in essence, we must view the corporation as a society in and of itself. Focusing again on the idea of academic dishonesty as it relates to corporate dishonesty, Michaels and Miethe (1989) suggested that Hirschi's social bond theory would also exert opposite effects on academic cheating; involvement in conventional activities would decrease the amount of free time left for studying and could therefore increase the likelihood of cheating to obtain the desired grades. Perhaps simply being bonded to a conventional other is not enough but instead a fine balance must be achieved to properly minimize the likelihood of offending. The current study will focus on marital status, number of children, tenure in the company before becoming CEO, and political campaign contributions as indicators of social bonds to conventional others.

Differential Association/Social Learning Theory

Sutherland's (1947) differential association theory consisted of nine formal propositions about how criminal behavior was learned. According to Sutherland, deviant behaviors are learned through social interactions with intimate others. These learned behaviors include techniques of engaging in the crime, specific motivations, and rationalizations, which are related to favorable or unfavorable definitions of the law. When there is an excess of definitions favorable to law violations and a shortage of definitions favorable to law compliance, deviant

actions are likely to take place. Additionally, this process of learning deviant definitions is no different from the processes involved in any other learning. Furthermore, Sutherland (1947) suggested that these differential associations help explain the constructed "needs" and "values" associated with criminal behavior, and they may vary in frequency, duration, and intensity.

Burgess and Akers' (1966) social learning theory reformulated Sutherland's differential association theory by adding an operant conditioning perspective to more precisely explain how deviant definitions were learned. Burgess and Akers' (1966) social learning emphasized the behaviors of intimate group members (i.e., peers) whereas Sutherland's theory emphasized the attitudes of intimate group members. While both theories are similar in terms of learning definitions favorable to deviance through associations with others, some studies have found the effect of peers' behavior to be much stronger than the effect of peers' attitudes, thus giving Burgess and Akers' theory more support (Warr and Stafford, 1991; Matsueda and Heimer, 1987). This has implications for the corporate crime literature; corporate actors may express attitudes against law violation but may behave otherwise. This is similar to Black's (2005) suggestion that corporate actors may believe themselves to be morally righteous while at the same time behaving immorally.

Differential association/social learning has a direct bearing on corporate crime; definitions favorable to offending could be learned either through their educational process, or through associations with others within the same industry. This may explain why studies have found that certain industries tended to have more violators than others (Baucus and Near, 1991). Chirayath et al. (2002) have suggested that corporate criminal behavior is learned through socialization with competitors and associates; "The commission of corporate crime occurs through the internalization of criminal corporate goals or through the use of deviant means in

accomplishing conventional corporate goals" (2002:132). Not only are techniques of offending learned through these associations, but so are the rationalizations behind them. The current study will examine both the educational background and the industry in which the organization resides with the idea that deviant definitions/rationalizations are learned through associations with deviant others the CEO may have encountered in school or from associations with others within the industry. Fraternal membership in college, military experience, and membership to golfing organizations will also be examined.

Strain Theories

Classic strain theories (Merton, 1938; Cohen, 1955; Cloward and Ohlin, 1960) are argued to be incompatible with the idea of corporate crime because of its focus on lower class populations. Specifically, Merton (1938) focused on the American cultural value that all individuals had equal opportunity to acquire wealth and even though not everyone would achieve this higher wealth, all were expected to try. Merton argued that the poor were the ones who would suffer the most from this disjunction between wanting wealth and being unable to acquire it and this blocked access to legitimate means would produce feelings of stress, anger, frustration, or rebellion that could ultimately lead to deviant/criminal acts. Here in lies the criticisms against classical strain theory's ability to explain corporate crime; there was no consideration that the wealthy might also experience similar strains to acquire more money (Kornhauser, 1978; Agnew, 1995; Akers, 1996). In the corporate/white-collar realm, some have expressed the idea of strain in terms of the "fear of falling," or the fear of losing what one has worked so hard to earn (Weisburd et al., 1991; Wheeler, 1992). However, if one were to shift the focus of strain theory away from society and the individual (micro) and place it on the industry and company (macro) respectively, then one might expect that poorly performing firms

would be more likely to experience strain and therefore more likely to engage in deviant/criminal activity than the high performance firms (Finney and Lesieur, 1982; Simpson and Koper, 1997). Yet empirical studies have not yielded much support for this hypothesis (Clinard and Yeager, 1980; Simpson, 1986; Baucus and Near 1991; Hill et all 1992; Jenkins and Braithwaite 1993). For example, Baucus and Near (1991) found that firms that were performing moderately well or good were more likely to engage in crime. Oddly, Jamieson (1994) found that even though poorly performing firms were more likely to engage in antitrust activities, it was the relatively successful companies that were more likely to be found guilty. However, by their very nature, corporations are strongly goal-oriented and concerned with performance therefore all corporations, regardless of their performance level may experience strains from wanting or expecting to achieve more. A review of the Securities and Exchange Commission filings reveals a handful of companies found guilty of "cooking the books" in order to meet Wall Street's expectations (http://www.sec.gov/).

Organizational strain can emanate from both the external environment (e.g., economic conditions, compliance laws) and the internal environment (e.g., firm size, performance pressures, managerial change). The current study will focus on total corporate profits and returns to investors over the study period as they relate to organizational and CEO offending. Organizational size, total revenues, and Fortune 500 rankings will be controlled for in the matched sample design discussed below.

Research Direction

The purpose of this research is to ascertain if there are certain characteristics of CEOs of Fortune 500 companies that contribute to violations committed by the company. In other words, controlling for organizational characteristics, are there certain individual characteristics of CEOs

that are associated with misconduct by firms? The research thus far has suggested that CEOs and top management do have effects on the moral climate and do influence definitions of acceptability within their firms (Paternoster and Simpson, 1996; Clinard, 1983, 1990; Simpson, 1992; Jenkins and Braithwaite, 1993; Simpson and Koper, 1997). As Simpson and Koper (1997:394) suggest, "If there is a common adage in the corporate ethics literature, it is that the ethical tone of the firm is set from the top down." Essentially, the corporate executive should know what is going on in his/her company and should therefore be responsible for the actions, be it legal or illegal. This precedent of strict liability was set in the legal realm by US v. Parks (1975) in which the Supreme Court ruled that a corporate official can be convicted of a crime if the officer's position provided the opportunity to locate and stop a violation of a public welfare statute but neglected to do so. CEOs are often credited with increasing profits and productivity of their corporations, so it would make sense to credit them with violations as well. Access to corporate decision-making power is necessary in order to carry out most offenses (i.e., antitrust) and those same executives are in positions to design control systems to insulate themselves from implication should misconduct occur. Or, as Gross (1980) suggested, there may be some characteristics of officers that make them especially receptive to pressures to engage in illegal behavior.

Another area of interest is to examine where these top executives come from in terms of education. These finding would be important, especially if we find an over representation of one particular university or field of study; do the top executives of companies implicated in corporate criminality come from programs that produce criminal corporate officers?

A third area of interest is to examine whether those implicated in the conspiracies (companies and CEOs) had any other allegations brought against them in the study time frame.

As discussed earlier, it is not unusual for convicted corporate executives to be rehired immediately upon release from prison. This is an important aspect because the larger criminological literature has shown time after time that past behavior is a significant predictor of future behavior (Vold et al., 2002). We know nothing about corporate misconduct until after-the-fact. If it is at all possible to find similar characteristics among the corporations and their CEOs that violate the laws, then maybe we can "profile" certain companies and keep an eye on them.

CHAPTER 3
DATA AND METHODS

The literature identifies six main types of illegal corporate behavior: labor, manufacturing, environmental, administrative, financial, and unfair trade practices (Clinard and Yeager, 1980). For the purposes of this study, the focus will be on the latter three. Data on company history, violations, types of conspiracies and those involved, case characteristics and outcomes (when available), CEO characteristics, and company characteristics are all public information and are recorded and published in various locations.

Company information was obtained through the Fortune 500 publications and websites. Available information includes current and past company and industry analysis, stock performance, how corporations rank on other global and industry lists, number of employees, contact information for each company, and the "top performers" in terms of profitability, best investment, and fastest growing (the latter three are only available for the current year and are not recorded in the archives). Data was also gathered on a control sample of "non-offending" firms. Using the Fortune 500 publications, it was relatively easy to find comparable companies who did not have any SEC violations during the study period. The matched companies were pulled from the same industry and matched as closely as possible on size (i.e., number of employees) and revenues from the year prior to the start of the offending company's misconduct. The final matched non-offending sample consists of thirty cases; nine cases were lost due to matching criteria complications (e.g., there were no other companies within the same industry with comparable size and revenues and/or had no SEC violations during the study period). [1] One notable issue with the inability to match certain cases appears in the securities industry in which all but one company in the securities industry had SEC violations during the study period,

[1] Analyses were run with the non-matched companies deleted from the sample. Results were substantively similar.

producing four of the unmatched cases. The prevalence of the securities industry in SEC violations speaks volumes about that industry. It is recognized, however, that this control sample has limitations; just because a company does not have an official record does not mean it has refrained from questionable activities, however this limitation is not unique to the study of white-collar crime, it remains true for any study utilizing official data. It is possible that the SEC has not caught the company or the company may have violations with other regulatory agencies. However, for purposes of this initial study, we are only concerned with SEC violations. Descriptive statistics for the full sample can be found in Table 1, descriptive statistics for the split models can be found in Tables A-1 and A-2 in the Appendix and a correlation matrix can also be found in Table A-9 of the Appendix.

Dependent Variables

Measures of organizational misconduct for the current study come from the Securities and Exchange Commission (SEC) filings. The SEC was created during the Depression to serve the public interest by protecting the economy and investors from the recurrence of another great stock market crash. The SEC requires full disclosure of information that could affect investment decisions, and it has the power to suspend trading when it finds inconsistencies or misinformation about an organization's assets, operations, or other financial information. The SEC also reports all civil and criminal allegations brought before the federal courts by the Commission on matters relating to violations in filing paper work, insider trading, violations of foreign business policy, aiding and abetting, and several types of fraud (i.e., financial, false statements, etc.). Acknowledging the fact that the SEC data has limitations (i.e., it is essentially self-report data), it was chosen for the richness of the details outlined in the case filings. Each SEC filing consists of several pages of details about the company, the length of the conspiracy,

the motivation for the misconduct and how it was discovered, who was involved, how it was carried out, and the actions taken to rectify the situation. It is this richness and inclusiveness that determined the use of the SEC data above other available data sources.

Corporate misconduct was measured as instances of SEC complaints or charges against Fortune 500 companies between the years 2000 and 2006 for a total offending sample size of 39. The data is coded dichotomously, 1 for an SEC infraction and 0 for no SEC infraction. Data was gathered on those offenses in which the individual CEO was named in the incident and those in which the company itself was named in the incident. While acknowledging the fact that crimes committed by organizations may differ from crimes committed by individuals, the sample contains only those cases in which the CEO was named in the suit for engaging in activities that were primarily intended to benefit the company rather than the individual. In the offending sample, twenty-five cases specifically named the company, nine cases named the CEO only, and five cases named both the CEO and the company. Additionally, civil and criminal charges were originally going to be disaggregated in the analysis to test for differences pertaining to the two different charges however more than 97% of the cases were civil cases thus making it impracticable to test for differences between the two categories.

Independent Variables

Organizational Variables

Financial performance has been one of the most frequently cited correlates of corporate illegality (Clinard and Yeager, 1980; Finney and Lesieur, 1982; Simpson and Koper, 1997). Specifically, those companies with weak or declining financial status may feel more pressure to find alternative resources and cut costs in ways that may not be legal (Cochran and Nigh, 1987). Therefore, the current study will examine where the company stood in terms of profits (in

millions of dollars) and percentage of returns to investors as indicators of performance with the expectation that lower scores on the profit and returns to investors scale will signify poor company performance and will increase the likelihood of misconduct. Following Simpson and Koper (1997), these numbers will be lagged one year from the start of the misconduct for both the offending and matched non-offending sample. As suggested by Simpson and Koper (1997) and Baucus and Near (1991), certain industries may be more prone to law violations than others; therefore, the industry in which the company resides will also be examined.

- **Hypothesis 1**: Poorly performing firms will be more likely to engage in SEC misconduct than better performing firms.
- **Hypothesis 2**: Corporate offending will be more prevalent in one industry as opposed to being spread out evenly amongst all industries.

As organizational size increases, communication and coordination problems may increase, the organization becomes more decentralized, employee numbers increase, structural controls may decrease, and opportunities for engaging in illegal behaviors may increase; these factors associated with firm growth have all been hypothesized as leading to a higher likelihood of offending (Cochran and Nigh, 1987). Baucus and Near (1991) suggested that the number of employees was a good indicator of size and by one estimate, has been used in 80% of empirical studies in organizational theory (Kimberly, 1976). Following Baucus and Near (1991), this study measures company size as the *number of employees* in the company. However, size will not be directly tested in the models but it will be controlled for through the use of the matched sample design discussed earlier.

Individual Variables

Advameg, Inc. maintains an Encyclopedia of American Businesses which includes biographies of the major players in the corporate world. Additional information was gathered

from corporate press releases, the Notable Name Database, and the alumni associations of the schools from which the CEO graduated. These listings include various personal characteristics of chief executive officers including the target variables such as the year they were born, race (1= white, 2= other), sex (100% of the sample was male), corporate/employment history (coded continuously as number of years working at the company), length of tenure as CEO (years), whether the CEO was promoted to the position from inside or outside the company (1= internal, 2= external), education (qualitative aspect), degrees earned (0= no for specific degree, 1= yes for specific degree), number of higher education degrees held (continuous), and year earned (coded as the year), marital status (0= not married, 1= married), number of times married (continuous), nationality (qualitative aspect), fraternity membership (0= no, 1= yes), membership in golf leagues (0= no, 1=yes), etc. (see the hypotheses below for directional effects). All of these variables will be examined with the general hypothesis that CEO characteristics will significantly contribute to the prevalence of SEC violations and these effects will be independent of the organizational characteristics. Following the business literature and aspects of criminological theory, hypotheses relating to individual CEO characteristics and misconduct are presented below.

The business literature suggests that younger CEOs, those with low organizational tenure, and those promoted from outside of the firm are more likely to engage in risky behaviors as they relate to company spending, and research and development. Similarly, as discussed earlier, Daboub et al. (1995) hypothesized that younger management teams and management teams with a higher percentage of MBAs would be more likely to offend. Three hypotheses are derived from these suggestions:

- **Hypothesis 3a**: Younger CEOs will be more likely to engage in SEC violations than older CEOs

- **Hypothesis 3b**: CEOs with MBA degrees will be more likely to have SEC violations against themselves and/or their companies than CEOs without MBA degrees

- **Hypothesis 3c**: Individuals who are promoted to the CEO position from outside of the company will be more likely to have SEC violations against themselves and/or their companies than individuals who were promoted to CEO from within the company.

Differential association theory suggests that deviant behaviors are learned through social interactions with intimate others (i.e., peers) therefore, the hypotheses listed below set out to explore whether certain social interactions are significantly associated with misconduct. Studies have suggested that fraternity/sorority membership and athletic membership increase the likelihood of cheating (Burrus et al., 2007) and as discussed earlier, cheating in the academic realm may evolve to cheating in the corporate world. It may be possible that deviant definitions (e.g., cheating, hazing, etc.) can be learned through fraternal membership and may later evolve to the corporate world. However, the data do not allow for the direct examination of deviant associations, but it does allow for the examination of group membership effects. Unfortunately, data on high school and college athletic participation was not available for enough cases to be analyzed in this study; however, data was available on CEO adulthood membership in golf leagues. This study also sets out to test whether or not there is an overrepresentation of any particular schools among the offending sample; in other words, is there one particular school or program that seems to produce deviant CEOs?

- **Hypothesis 4a**: CEOs with military experience will be less likely to have SEC misconduct violations against themselves and/or their companies than CEOs without military experience.

- **Hypothesis 4b**: CEOs who are members of a golfing league and who were members of a fraternity in college will be more likely to have SEC violations against themselves and/or their company than those who are not members of these groups.

- **Hypothesis 4c**: There will be an overrepresentation of one university among the offending sample.

- **Hypothesis 4d**: While both the offending and non-offending sample are expected to have a higher number of business-type majors overall, there will be an overrepresentation of one particular field of study among the offending sample.

Control theory suggests that it is the bonds to conventional others that refrains an individual from engaging in deviant behavior. Following this theory, three hypotheses are outlined below. Bonds to the institution of marriage were measured as the *number of times* the individual was married as opposed to whether or not they were simply married (83% of the sample was married). An increased number of marriages may be suggestive of a lack of respect or bond to the institution of marriage. For example, roughly three percent of the CEOs in the sample cheated on their wives (then married their mistresses); perhaps the lack of respect for one institution may carry over to another institution (i.e., the law). On a similar note, the more children an individual has and the longer they have been with the company may reduce the likelihood of offending due to the positive attachments to their children and their company. It must be noted that the latter hypothesis could be expected to produce the opposite effects if the analysis were shifted to examining the corporate subculture, but these hypotheses are derived from the traditional/conventional standpoint and therefore are expected to produce the traditional directional values. The more money an individual donates to political campaigns may, from the theoretical standpoint, signify a bond to the political process and society itself therefore reducing the likelihood of offending. Again, this last variable is taken in the traditional sense, much like voting behavior has been used to measure bonds (or faith in) the political system of the United States; however, the irony in the use of this variable is apparent as many large corporations have been known to “donate” money in efforts to promote its own interests.

- **Hypothesis 5a**: The more times a CEO has been married, the more likely they are to have SEC violations against themselves and/or their company.

- **Hypothesis 5b**:The more children a CEO has, the less likely they are to have SEC violations against themselves and/or their company.

- **Hypothesis 5c**: The more money a CEO donates to political campaigns, the less likely they are to have SEC violations against themselves and/or their company.

- **Hypothesis 5d**: The longer an individual was employed at the company before becoming CEO the less likely they will be to have SEC violations against themselves and/or their company.

Results of these binary logistic regressions along with other supplementary analyses are found in Chapter 4. Cases were lost in the analysis due to missing data, therefore the multivariate tables identify the total sample used in the analyses. Chapter 5 reviews three of the misconduct cases selected from the more copious industries in the data set.

Table 3-1: Descriptive statistics: full sample

	N	Min.	Max.	Mean	S.D.
Profits (millions $)	62	-8101.00	5807.00	1010.71	1786.67
% return to investors	59	-73.50	289.80	37.68	69.51
Length of conspiracy (months)	69	0.00	84.00	18.32	23.80
Year became CEO	69	1963.00	2002.00	1992.09	8.02
Year started at company	69	1952.00	2001.00	1981.13	13.52
Internal (1) or external (2) promotion	69	1.00	2.00	1.19	0.39
Year CEO born	66	1920.00	1966.00	1944.86	8.99
Race (1= white, 2= other)	65	1.00	2.00	1.03	0.17
Sex (1= male, 2= female)	69	1.00	1.00	1.00	0.00
# of higher ed. Degrees	67	0.00	3.00	1.60	0.82
# of honorary degrees	69	0.00	6.00	0.52	1.08
Military service (1=yes, 2=no)	69	0.00	1.00	0.20	0.41
# of times married	57	0.00	4.00	1.18	0.60
# of children	56	0.00	9.00	3.02	1.80
Fraternity (1=yes, 2=no)	67	0.00	1.00	0.15	0.36
Golfer (1=yes, 2=no)	68	0.00	1.00	0.29	0.46
Age became CEO	66	28.00	64.00	47.30	8.48
Political $	69	0.00	353,350.00	30,251.93	65,704.20
Years as CEO	64	0.00	39.00	11.13	7.97
Years w/co. before CEO	64	0.00	34.00	10.53	11.05

CHAPTER 4
RESULTS

Results of the logistic regressions are given in Table 4-1. Model 1 tests the variables proposed by the business literature to significantly affect firm performance and spending. The year the CEO was born (bornyr) (-0.42) is negative and significantly related to whether or not the company had an SEC violation in the study period; the earlier the CEO was born (or the older they are), the more likely they are to have engaged in misconduct. It is possible that as the individual gets older he/she may feel that they have learned enough to know how to evade the law without being caught. Or it could simply be that the older CEO just does not care anymore and in an effort to distance themselves they may pull away from day to day activities or delegate responsibilities to others.

Interestingly, the age the individual was when they became CEO (ageceo) (-0.48) is also negative and significantly related to misconduct suggesting that the younger the individual was when they became CEO, the more likely they are to have violated SEC rules.[2] This finding is consistent with the idea that the level of experience held by the CEO may affect his ability to know and follow the rules. The younger they are the less business experience they may have. This finding taken with the previous results, leads to an interesting dilemma when it comes to the age of a CEO and offending propensities; the younger they are when they start and the older they are in general, the more likely they or their company are to have an SEC violation. This is somewhat of a "Goldilocks" policy on age – not too old, not too young, just right. Among the offending sample, the average age of CEOs when they started the position was 47.6 years old with a minimum age of 28 and a maximum age of 64 whereas the non-offending sample average

[2] The year the CEO was born (bornyr) and the age at which the individual became CEO (ageceo) were questionably correlated at –0.59, therefore each of the variables were entered in the model separately and neither exerted significant effects independently of the other. As a result, both variables were left in the model.

age is 46.8 with a minimum of 30 years and a maximum of 61 years of age. Among the offending sample, the average age of CEOs when the offenses started was 52.7 years, with a minimum age of 32 and a maximum age of 72.

The number of honorary degrees (honoredu) (0.70) held by the CEO was a positive and significant predictor of SEC misconduct; the more honorary degrees the CEO held, the more likely he or his company was to have an SEC violation. Honorary degrees are generally awarded to those who have made noteworthy and/or humanitarian contributions to the field both scientifically and monetarily. Perhaps receiving an honorary degree may instill a notion of being rewarded for something that was not necessarily earned. This notion can be carried into the corporate world by buying one's success or cutting corners to achieve the desired goal. However, a much more likely explanation would be a fear of falling rational in which the CEO may feel pressured to continue his success to uphold the reputation and prosperity in the field for which he was rewarded.

Finally, the individual's tenure as CEO (ceotenur) (-0.55) was entered into the model to control for experience. It is negative and significantly related to SEC misconduct suggesting that less experienced CEOs are more likely than the more experienced CEO to incur an SEC violation.[3] Again, this is similar to the above finding that the younger the individual is when they start the CEO position, the less experience they may have.

Contrary to hypothesis 3c predictions, the variable for whether the individual was promoted to CEO from inside or outside of the firm was not significant and its removal from the model did not alter the overall findings, therefore this variable is not presented in the final analysis. Likewise, with the exception of the number of honorary degrees held by the individual,

[3] CEO tenure (ceotenur) was not highly correlated with either the year the CEO was born (-0.46) or the age at which the individual became CEO (-0.41).

none of the other variables for education (i.e., the number of degrees, if they had a bachelor's degree, MBA, PhD, or JD) were significant in the model and their exclusions did not alter the overall findings, so they too are not presented in the final analysis. Table 4-2 presents the percentages of CEOs holding particular degrees.

As can be seen in Table 4-2, a higher percentage of the non-offending sample holds bachelor's degrees, but the offending sample has a higher percentage of CEOs who continued their education beyond the bachelor's level. Tables 4-3 and 4-4 list the universities in which the CEOs received their MBAs for the offending and non-offending samples respectively. Of the 16 CEOs in the offending sample with an MBA degree, 25% received their MBA from Harvard, 18.75% received their MBA from New York University, and 12.5% received their MBA from the University of Chicago. Harvard and Columbia are the only schools to appear in both the offending and non-offending samples. Of the 12 CEOs in the non-offending sample with an MBA degree, 25% received their MBAs from Harvard, much like the offending sample, and 25% received their MBA from Stanford, the latter of which does not appear in the offending sample list. The prevalence of graduates from Harvard is not surprising given that a recent calculation by Bloomberg News found that Harvard and the University of Wisconsin tied for first place for producing the most chief executive officers of companies included in the Standard and Poor's 500 Index (Willen, 2004). What is interesting, though, is the University of Wisconsin did not appear in the offending sample list nor did it appear in the non-offending matched sample (this may be an effect of the sample selection). A listing of the universities in which the CEOs earned their bachelor's degrees can be found in Tables A-3 through A-6 in the Appendix. Table 6 lists the university majors by degree and sample (when information was available). Business, economics, and engineering are the top three majors across both the offending and non-offending

sample thus suggesting that there is not one particular major that produces more offenders than another. However, it does appear as though the offending sample has a much more diverse range of majors than the non-offending sample. Perhaps majors outside of the top three mentioned do not prepare the individuals for careers as corporate leaders.

Model 2 in Table 4-1 presents the findings when differential association is used to predict SEC violations. Model 2a presents only the differential association variables entered into the equation. Military experience (military) (0.85) and fraternity membership (frat) (0.26) are both positive suggesting that being in the military or being in a fraternity increases the likelihood of SEC violations, but neither variable is significant. While the direction of fraternal membership is consistent with prior research suggesting a link between fraternities and cheating, the direction of the military experience variable is somewhat surprising. The military is characterized by strict accordance to rules and regulations; therefore the negative direction suggesting that military experience may increase violation of rules and regulations is unexpected. However, being a registered member of a golf league (golfer) (-1.34) is negative and significantly related to misconduct; if a CEO plays in a golf league, they are less likely to have SEC violations against themselves or their company. This finding is somewhat contrary to the expectation that if CEOs were going to talk (share their deviant definitions) it would happen on the golf course. Model 2b presents the findings when the business model is entered into the equation with the differential association variables. The results are very similar to the independent models with the exception that honorary degrees loses power and remains only marginally significant.

Table 4-6 presents a listing of the industries implicated in the offending sample. As can be seen, the securities, telecommunications, and commercial banking industries are the top three worst industries in the sample with 12.8% and 10.3% of the offending sample respectively,

belonging to those industries. The prevalence of offenders from the securities industry made finding non-offending matches virtually impossible. All but one of the companies on the Fortune 500 list in the securities industry had SEC violations during the study period. This obviously speaks to the nature of the securities industry and the need to closely watch those companies in the future. Similarly, ten companies in the sample had more than one SEC violation during the study period. Six companies had two violations representing the securities industry (2), telecommunications (1), pharmaceuticals (1), computers: office equipment (1), and electronics (1). Three companies had three violations representing the securities industry (1), commercial banking (1), and telecommunications (1). Finally, two companies had four SEC violations during the study period representing the energy and insurance industries. Tables A-7 and A-8 in the Appendix present listings of the states in which the CEOs were born and the states in which the corporate headquarters of the sampled companies reside.

Model 3 in Table 4-1 reports the results of the strain variables entered into the models. Neither of the strain variables, profits in millions of dollars (profit2) lagged one year nor percentage returns to investors (retinv2) lagged one year, were significant.[4] These results are not surprising given that prior research has suggested that the financial performance of firms is not a strong predictor of offending (Clinard, 1979; Clinard and Yeager, 1980). The results for the business model variables are similar to those found in Model 1.

The results presented in Model 4 are consistent with control theory predictions. The number of times an individual has been married (martime) (1.34) is positive and marginally significant suggesting that more marriages lead to a higher likelihood of misconduct. As posited earlier, a lack of commitment to the institution of marriage may signify a lack of commitment to

[4] The strain variables in Model 3 are not highly correlated with the revenue variable used to match the offending and non-offending samples (profit and revenue = 0.10; returns to investors and revenue = -0.06).

other institutions as well. The number of children the CEO has (kids) (-0.28) and the number of years the CEO worked at the company before becoming CEO (co2ceo) (-0.02) are both negative and in line with control theory predictions. The more children the CEO has and the more time the individual has invested in the company (strong attachments and involvements), the less likely they or their companies are to offend. Unfortunately neither of these two variables attains significance, nor does political campaign contributions (campmon).

Model 4b reports the results of the combined control theory and business model. The variables in the business model remain significant as in Model 1, but now, the number of times an individual has been married (2.87) is significant at the .05 level and the number of children (-1.06) attains significance. Political campaign contributions and number of years the individual worked at the company before becoming CEO still do not attain significance.

Model 5 in Table 4-1 contains all of the variables from the previous models. The most striking finding to emerge is that none of the criminological theory indicators are significant, and with the exception of the number of honorary degrees held by the CEO, all of the variables in the business model are marginally significant. Table 4-7 builds off of Table 4-1 Model 5 by only combining those variables that were significant in the previous models found in Table 4-1. Model 1 (Table 4-7) suggests that the business model combined with certain features of control theory and differential association theory provides an adequate explanation for corporate misconduct with all of the variables attaining significance in the model and an explained variance of 72.5%. Model 2 presents the results when only the significant criminological theory indicators are in the equation without the business variables. What emerges is the apparent inadequacy of criminological theories alone to successfully predict corporate misconduct (with the exception of golf league membership which is marginally significant). These findings have

important implications for future studies of corporate crime within the field of criminology. If current criminological theories are inadequate for explaining corporate crime by themselves, than white-collar/corporate researchers must focus on other avenues of explanation, specifically academic field integration. The current study took initial steps to integrate the business literature and criminological research; future research must expand upon these initial efforts because it may be an important step for criminology researchers to reach beyond their field in order to better explain corporate crime.

Table 4-1: Logistic regression predicting SEC violations

	Model 1 (n=61)		Model 2a (n=68)		Model 2b (n=61)		Model 3a (n=59)		Model 3b (n=54)	
I.V.	Est.	S.E.	Est.	S.E.	Est.	S.E.	Est.	S.E.	Est.	S.E.
Bornyr	-0.42^	0.13			-0.46**	0.14			-0.49**	0.17
Honoredu	0.70*	0.32			0.67^{+}	0.36			0.91*	0.37
Ageceo	-0.48^	0.15			-0.53^	0.16			-0.57**	0.19
Ceotenur	-0.55^	0.15			-0.64^	0.18			0.65^	0.20
Military			0.85	0.69	1.12	0.96				
Golfer			-1.34*	0.57	-1.87*	0.81				
Frat			0.26	0.75	1.02	1.2				
profit2							0.00	0.00	0.00	0.00
retinv2							0.00	0.00	0.01	0.01
Martime										
Kids										
campmon										
co2ceo										
constant	835.80^	261.67	0.50	0.35	921.422^	289.54	0.18	0.34	979.40**	340.42
-2 Log Like	59.294		85.322		51.280		81.360		48.225	
Cox & Snell R^2	0.335		0.104		0.417		0.000		0.389	
Nagelkerke R^2	0.447		0.140		0.557		0.000		0.518	

^p<0.001 **p<0.01 *p<0.05 $^{+}$ p<0.10

Table 4-1 (Continued)

I.V.	Model 4a (n=49) Est.	S.D.	Model 4b (n=47) Est.	Est.	Model 5 (n=42) S.D.	S.D.
Bornyr			-0.79**	0.28	-1.41^{+}	0.75
Honoredu			1.30*	0.62	2.034	1.52
Ageceo			-0.85**	0.31	-1.58^{+}	0.89
Ceotenur			-1.03**	0.36	-1.91^{+}	1.01
Military					5.60	4.19
Golfer					-2.80	2.31
Frat					0.20	9.69
Profit2					-0.00	0.00
Retinv2					-0.01	0.03
Martime	1.34^{+}	0.72	2.87^{+}	1.29	4.95	4.26
Kids	-0.28	0.22	-1.06^{+}	0.59	-1.36	1.26
Campmon	0.00	0.00	0.00	0.00	0.00	0.00
Co2ceo	-0.02	0.03	-0.09	0.06	-0.21	0.14
Constant	-0.65	0.87	1594.08**	555.58	2835.60^{+}	1500.22
-2 Log Like	62.102		30.106		14.864	
Cox & Snell R^2	0.112		0.525		0.643	
Nagelkerke R^2	0.149		0.701		0.858	

^p<0.001 **p<0.01 *p<0.05 $^{+}$ p<0.10

Table 4-2: Percentage of CEOs holding certain degrees

	Full sample (n=69)	Offending sample (n=39)	Non-offending sample (n=30)
0 higher edu degrees	10.1%	12.8%	6.7%
1 higher edu degree	29.0%	23.1%	36.7%
2 degrees	47.8%	46.2%	50.0%
3 or more degrees	10.1%	12.8%	6.7%
Bachelor's degree	88.4%	84.6%	93.3%
BS	34.8%	23.1%	50%
BA	53.6%	61.5%	43.3%
Master's degree	18.8%	20.5%	16.7%
MBA	40.6%	41.0%	40%
PhD	1.4%	2.6%	0.0%
JD	8.7%	10.3%	6.7%

*Percentages may not add up to 100% due to missing data.

Table 4-3: MBA received where: Offending sample only

	Frequency	Percent
Boston U.	1	6.25
Columbia U.	1	6.25
Harvard	4	25.00
Michigan State U.	1	6.25
MIT	1	6.25
NYU	3	18.75
Rutgers U.	1	6.25
U. of Chicago	2	12.50
U. of New Hampshire	1	6.25
Wake Forest U.	1	6.25
Total with MBA	16	100.00

Table 4-4: MBA received where: Non-offending sample only

	Frequency	Percent
Case Western Reserve U.	1	8.33
Columbia U.	1	8.33
George Washington U.	1	8.33
Harvard	3	25.00
Northeastern U.	1	8.33
Northwestern U.	1	8.33
Stanford U.	3	25.00
U. of Penn	1	8.33
Total with MBA	12	100.00

Table 4-5: College majors by sample

MAJOR	Bachelor's degrees		Master's degrees (non-MBA)		PhDs	
	Offending sample	Non-offending sample	Offending sample	Non-offending sample	Offending sample	Non-offending sample
Accounting	1					
American Studies	1					
Applied Sciences	1					
Biblical Studies	1					
Business*	5	3	4	1		
Economics	2	6	2	1	1	
Engineering**	5	7		1		
English	1	1				
Government	1					
Pharmacy		1				
Physical Edu	1					
Physics	1					
Political Science	1		1			
Regional Planning			1			

* Business degrees include business, business administration, and management. The business master's degrees are not considered MBAs and include commercial science and business administration.

** Engineering degrees include chemical, civil, mechanical, metallurgical, electrical, and industrial engineering.

Table 4-6: Fortune 500 industry listing: Offending sample (n=39)

	Frequency	Percent
Aerospace and Defense	1	2.6
Chemicals	1	2.6
Commercial Banks	4	10.3
Computer Software	1	2.6
Computers, Office Equip	3	7.7
Electronics	1	2.6
Energy	2	5.1
Entertainment	1	2.6
Food & Drug Stores	1	2.6
Food Production	1	2.6
General Merchandiser	2	5.1
Health Care: Insurance and managed care	1	2.6
Health Care: Medical facilities	1	2.6
Insurance: P & C (stock)	1	2.6
Internet Services and Retailing	1	2.6
Motor Vehicle and Parts	1	2.6
Network and Other Communications Equip	1	2.6
Oil & Gas Equip and Services	1	2.6
Pharmaceuticals	2	5.1
Securities	5	12.8
Telecommunications	4	10.3
Waste Management	1	2.6

* Subsidiary companies excluded from this listing so as not to artificially inflate industry participation.

Table 4-7: Logistic regression using only significant variables

	Model 1 (n=47)		Model 2 (n=53)	
I.V.	Est.	S.D.	Est.	Est.
bornyr	-0.83**	0.27		
honoredu	0.91^{+}	0.49		
ageceo	-0.87**	0.28		
ceotenur	-1.08^	0.34		
golfer	-3.34*	1.49	-1.28^{+}	0.70
martime	2.66*	1.31	1.02	0.73
kids	-0.87^{+}	0.49	-0.19	0.22
constant	1658.18**	535.98	-0.10	0.81*
-2 Log Like	28.234		65.178	
Cox & Snell R^2	0.544		0.137	
Nagelkerke R^2	0.725		0.184	

^p<0.001 **p<0.01 *p<0.05 $^{+}$ p<0.10

CHAPTER 5
QUALITATIVE REVIEW

To express the story that the numbers may not necessarily illuminate, this chapter reports a detailed description of three cases from the full offending sample. These cases were chosen from some of the more copious industries in the sample. The following examples present the detailed information that was gathered on all of the cases in the entire sample (when available) and are included here to highlight the stories that emerge that are oftentimes masked by the use of quantitative analysis alone.

Case Study 1: WorldCom

The Company

WorldCom was originally founded in 1983 as a discount long distance service provider called LDDS (Long-Distance Discount Service). Bernard ("Bernie") Ebbers was an early investor in the company and soon became its first Chief Executive Officer in 1985. Prior to his position as CEO of LDDS, Bernie Ebbers coached basketball and operated a hotel chain in Mississippi, hardly the resume for the head of what was soon to become a major global communications provider operating in 65 countries. In 1995, after a series of acquisitions and mergers, LDDS changed its name to WorldCom and continued to grow at a rapid pace engaging in a merger with MCI three years later (the largest merger in history at that time).

On March 11, 2002, the U.S. Securities and Exchange Commission (SEC) requested information from WorldCom relating to their accounting procedures and loans to corporate officers. Less than one month later WorldCom announced layoffs that would affect four percent of their entire work force. On April 30 of that same year, the CEO, Bernard Ebbers resigned when faced with declining stock prices and the SEC investigations of his personal loans. On June 25, 2002, WorldCom fired the chief financial officer after uncovering the improper

accounting of $3.8 billion in expenses and announced an additional 17,000 layoffs. Six days later, WorldCom announced that they had uncovered an accounting fraud scheme that dated back as far as 1999 (Washington Post Online, retrieved May 10, 2007). On July 21, 2002, WorldCom filed for bankruptcy protection and six days later on June 27, 2002, the SEC filed a civil action complaint against WorldCom for financial fraud. WorldCom announced a reorganization plan on April 15, 2003 in which they would change their name to its long-distance division, MCI, and move its headquarters from Clinton, Mississippi to Ashburn, Virginia. MCI finally emerged from bankruptcy one year later on April 20, 2004.

The Offense

During the 1990s, WorldCom was a major telecommunications service provider, but as the economy decelerated in 2001, so too did WorldCom's earnings and profits. In order to keep the company's numbers inline with Wall Street's predictions, senior management authorized the improper transfer of "line costs" to inflate earnings and underreport expenses. "Line costs" are fees that WorldCom paid to third-party companies for the use of their network lines; under the standards of generally accepted accounting principles (GAAP), line costs must fall under "expenses" and can not be capitalized on. The SEC investigation discovered that from as early as the first quarter of 2001 through the last quarter of 2002, these line costs were being improperly transferred to WorldCom's capital accounts thereby defrauding investors through underreported expenses and overstated earnings. Specifically, WorldCom reported that line costs in 2001 totaled $14.739 billion and their earnings before taxes totaled $2.393 billion when in actuality, line costs that year totaled $17.794 billion and their earnings totaled negative $662

million (a loss). The reports for the first quarter of 2002 were very similar; the company reported an artificially deflated line cost total and reported earnings of $240 million when in reality they suffered a loss of $557 million (SEC v. WorldCom, June 27, 2002). Under the precedent of strict liability, the SEC noted in the case filing that the company's senior management was to be held accountable:

> Defendant WorldCom, and members of its senior management, knew, should have known, or were reckless in not knowing, that its 2001 Form 10-K, and its Form 10-Q for the first quarter of 2002, including the financial statements contained therein, as filed with the Commission, contained material misstatements and omissions (SEC v. WorldCom, June 27, 2002).

Shortly after the filling, Scott Sullivan, WorldCom's former chief financial officer, and David Myers, the former Controller, were the first members of senior management to be arrested for their roles in the scandal. Many more arrests followed yet despite the controversy surrounding the company, the State Department awarded WorldCom with a multimillion-dollar contract to provide global communication services for the government. In August of 2003, the Oklahoma Attorney General filed criminal charges against the company and six former executives, including the former CEO Bernard Ebbers, who one year later was found guilty of conspiracy, securities fraud, and making false filings with regulators and was sentenced to 25 years in prison (Washington Post Online, 2005).

The CEO

Bernard ("Bernie") Ebbers was born on August 27, 1941 in Edmonton, Alberta, Canada. He was the second of five children born to a father employed as a traveling salesman. In his early years, Bernie Ebbers attended Victoria Composite High School in Edmonton, Alberta, Canada. He then enrolled in, and dropped out of, both the University of Alberta and Calvin College in Grand Rapids, MI. While working on his college education, Ebbers worked part-time

as a bouncer and milkman. Finally, in 1967, Bernie Ebbers graduated from Mississippi College with a Bachelor of Arts degree in physical education. He also holds two honorary degrees, an Honorary Doctorate of Law from Mississippi College (1992) and an Honorary Doctorate from Tougaloo College (1998). In 1968, Ebbers married Linda Pigott and together they raised three daughters before their divorce in 1997. Two years after that divorce, Ebbers married his second wife, Kristie Webb. Ebbers is a born-again Christian and a practicing Baptist who often credited his success to God. He was very active in the church and often taught Sunday school (NNDB, Retrieved 2006-2007; WTOV9 News Online, Retrieved 2007).

While at Mississippi College, Ebbers played basketball until an injury took him off the court his senior year. Shortly afterwards he was offered a position coaching the junior varsity team. After college, Ebbers continued to coach basketball at high schools and small colleges, he worked as a bouncer, and managed a warehouse. In 1974 he bought and operated a motel in Mississippi that soon became part of the Best Western chain. Then in 1983, he was offered the opportunity to invest in LDDS, a long-distance service company. Two years later, when Ebbers was 44 years old, he was offered the position of CEO of LDDS (later known as WorldCom). During his tenure at WorldCom, Ebbers was known for his unorthodox style; rather than a suit a tie, he wore blue jeans and boots, he started meetings with prayers, and he was known for his philosophy of fast growth through the use of an aggressive acquisition style; he was nicknamed the “Telecom Cowboy” (WTOV9 News Online, Retrieved 2007).

During his trial, Ebbers claimed he had no idea about the accounting fraud that occurred at his company and that he was innocent of any wrongdoing. He was 60 years old when the offense began. Some of his more famous quotes during the trial were, "I know what I don't know" and "I don't know technology and engineering. I don't know accounting" (Rocky

Mountain News Online, Retrieved 2007). Regardless, Ebbers was found guilty and faced up to 85 years in prison. During the sentencing phase, his lawyer cited Ebbers' charitable donations, his religious affiliations, his commitment to his family, and his heart problems as reasons why the judge should be lenient in sentencing. On July 13, 2005 Ebbers was sentenced to 25 years in prison, and after a series of unsuccessful appeals, Ebbers began serving his sentence on September 26, 2006 in a federal prison in Louisiana (CBC News Online, Retrieved 2007).

Discussion

This case study illustrates a few points discussed in the previous chapter. For example, Bernie Ebbers was married twice and had two honorary degrees, both consistent with the significant findings that more honorary degrees and more marriages were positively related to SEC misconduct. What is interesting is the fact that Ebbers holds an honorary law degree, a field of which he is not entwined (physical education and telecommunication). The average age that an individual became CEO was 47, Ebbers was below that average at age 44. Among the offending sample, the average age of CEOs when they engaged in the misconduct was 52, Ebbers was above that average as he was 60 years old when the offense began. What is striking about this case is that Ebbers' career before becoming CEO of WorldCom (basketball coach and hotel manager with a degree in physical education) is not one that would traditionally be thought of as qualifying for the position; Ebbers himself admitted that he knew nothing about technology or engineering. Perhaps this part of the reason for the problems at WorldCom, he may not have been equipped from the beginning to handle the position. Although Ebbers denied having any knowledge of the misconduct he was still in the position of which he should have been aware and he was in the position in which he could have stopped any misconduct.

Case Study 2: Rite Aid

The Company

Rite Aid Corporation was founded in 1962 by Alex Grass. The small retail store in Scranton, PA was a success and had expanded to five states by 1965. By 1987, Rite Aid became the largest drugstore chain in the United States with over 2,000 stores in operation throughout the country. The company continued to grow through acquisitions and mergers until the late 1990s when the company incurred some financial troubles (i.e., accounting fraud). While the corporate website does not allude to the legal issues that started in 1997 and lasted through 1999, it does discuss a "new management team" that arrived in 1999 that "completely overhauled the way the company does business" including their finances and operations. Chairman Robert Miller was put in charge of reorganizing the company and cleaning up the mess that the former senior management had left behind. By 2003, the company had recovered from the scandal and resumed its store development program and by the end of May 2006, Rite Aid had acquired over 5,000 stores across the country (Rite Aid Corporate Website, Retrieved 2007).

The Offense

On June 21, 2002, the SEC charged Rite Aid's former senior management with securities fraud relating to numerous counts of fraudulent accounting and reporting practices that took place from at least March 1997 through September 1999. After the misconduct was discovered, Rite Aid was forced to restate their cumulative pre-tax income and net income resulting in the largest financial restatement in U.S. history at that time (WorldCom and Enron broke the record shortly afterwards). The restatements showed that Rite Aid inflated its pre-tax income report by 9% for fiscal year 1998, and through mathematical amazement, by 71%, 5533%, and 94%,

respectively for the first three quarters of fiscal year 1999 (SEC v. Bergonzi, Grass, and Brown, 2002).

Martin Grass (CEO), Frank Bergonzi (chief financial officer), and Franklin Brown (executive vice president and chief legal officer) were charged with, among other things, directing Rite Aid's accounting staff to record various accounting entries that were essentially false, made up, and/or misleading. Among the many improprieties, Rite Aid systematically inflated deductions it took against vendors for damaged and outdated (D&O) products. Many vendors do not require the damaged or outdated product be sent back, instead, the receiving company (Rite Aid) was to destroy the product and subtract the cost from future remittance to the vendor. On a regular basis, Rite Aid would inflate the amount and cost of the damaged product to the vendors thus reducing amounts paid on remittance. Similarly, Rite Aid overstated its 1999 net income by charging vendors for undisclosed product markdowns even though the vendors never agreed to share the costs. In fact, the vendors didn't even know they were being charged for markdowns; these "markdown" costs were being reflected in the D&O statements to the vendors. Several Rite Aid employees questioned whether these practices were proper but Grass and Bergonzi allowed it to continue. One employee specifically told Grass and Bergonzi that the company's failure to actually charge the vendors for markdowns would negatively impact earnings by $30 million. Due to the fact that the mass markdown scheme was carried out in hundreds of stores across the country, Grass and Bergonzi were unable to determine which vendors were responsible for which costs, so they arbitrarily delegated costs across vendors based on percentage of purchases rather than actual dollar markdowns. Vendor complaints soon became the subject of several Wall Street Journal articles in 1999 (SEC v. Bergonzi, Grass, and Brown, 2002).

In 1998, Martin Grass unexpectedly fired the senior vice president of procurement, Kevin Mann. Grass began to spread rumors about Mann at pharmaceutical conferences, which eventually lead Mann to sue for defamation. Fearing that Mann would reveal too much information about how things at the company were run (both in court and to the Wall Street Journal), Grass recommended to the board of directors that the suit be settled out of court. The $11 million settlement required that Mann not discuss anything about the company to anyone; Grass essentially bought Mann's silence (Callahan, 2004), something the SEC later uncovered.

Another impropriety involved stock appreciation rights (SARS) that were granted to employees allowing them to receive in cash or Rite Aid stock, the amount equal to the change in stock from the date of issuance and the vesting date. Under GAAP, Rite Aid was supposed to report the accrued expenses from the SARS each quarter, but nothing was ever reported. Investigations showed that Grass personally signed the letters addressed to the SARS recipients while Bergonzi told the audit firm that no SARS had been issued.

Rite Aid was also charged with improperly accounting for expenses related to legal services, title searches, architectural drawings, and other expenses connected to site searches for new stores. When Rite Aid decided not to develop these sites, they should have written the expenses off, but instead they recorded these expenses as assets. By February 1999, these "dead deal" expenses totaled $10.6 million, of which Rite Aid filed as assets. The accounting office was directed to write these expenses off at a fixed rate of $125,000 per month, rather than all at once as prescribed by the GAAP. An employee in the accounting department sent Bergonzi a memo informing him that the dead deal account was not decreasing and in fact continued to grow. The employee urged Bergonzi to write off the dead deal accounts but Bergonzi ignored the problem and never responded to the accounting department about the matter.

The same SEC filing also charges Rite Aid with several other misappropriations such as providing false and misleading information to auditors. Feeling pressures from the media and employees, Rite Aid hired KPMG LLP, an accounting firm, to audit their financial statements for fiscal years 1998 and 1999. Bergonzi directed his employees to provide false information to the auditors. The company also did not properly account for shrinkage (loss of inventory due to loss or theft) thus allowing the company to overstate pre-tax income for 1999 by $13.8 million in non-reported shrinkage alone. Finally, while having difficulty financing the acquisition of PCS Health Systems, Inc. in January 1999, Grass lied to the lead bank on the credit line saying that the Board's finance committee agreed to use PCS as collateral for an interim loan. Later Grass told the same lie to Rite Aid's general counsel and directed him to draft meeting minutes to reflect this story; Grass signed off on the minutes from this nonexistent meeting.

The above violations were all intended to promote the interests of the company, but unbeknownst to Bergonzi, Grass, and Brown at the start of the scheme, Rite Aid had put in place several performance incentive plans that provided lucrative rewards (i.e., stock options, and bonuses) for financial success of the company. For the fiscal year 1998, Grass received a performance bonus of $898,000 in addition to his $1 million salary, Bergonzi received a $299,774 bonus in addition to his $445,000 salary, and Brown received a performance bonus of $336,825 in addition to a $500,000 salary. By the end of 1999, the three executives controlled multimillion dollars worth of Rite Aid stock options with Grass in the lead with $83.2 million of exercisable options (SEC v. Bergonzi, Grass, and Brown, 2002). It cannot be assumed that Bergonzi, Grass, and Brown were completely oblivious to the performance incentives; however the SEC investigation revealed that the officers were not aware of all of the incentives. So while

there was personal motivation to have the company succeed, much of the motivation for the violations was attributed to Grass' obsession with fast corporate growth and disregard for rules.

The CEO

Martin Grass was born in 1954 in Pennsylvania. He was the first of three children born to Alex Grass, the founder of the drugstore chain Rite Aid. According to a friend of the family, the Grass home was consumed with the desire for financial success at the cost of family relationships. In 1968, Rite Aid went public and Martin's father, Alex, became a very wealthy individual. Unfortunately there were some issues relating to an earlier power struggle with Alex Grass' in-laws as it related to the founding of Rite Aid; this created unresolved familial strain within the home. That same year, when Martin was fourteen years old, his father gave him a book entitled *The Teenager's Guide to the Stock Market*, and said, "Learn this – it's more important than baseball cards" (Callahan, 2004:28). Looking back on his childhood, Roger Grass, Martin's brother, was quoted as saying, "Look Dad, the reality is you made money the currency of love" (Callahan, 2004:34).

From the beginning, Martin was groomed to become the next head of Rite Aid. He earned his MBA from Cornell and then in the early 1980s, Martin and his brother Roger were given management positions within the company. Even though it was Alex Grass' intentions to have his son Martin take over the company one day, he had a very hard time relinquishing control.

In 1988, Martin and Roger had been secretly planning to oust their father from the company. Under their plan they called "Project Keystone," the brothers were to secretly buy up stock from key executives and directors until they each retained more stock in the company than their father; that way they could ultimately force their father's hand in matters (Callahan, 2004).

Under the plan, Alex Grass would remain chairman and Martin would become the new CEO. Fearing that Martin was making empty promises, Roger revealed this secret plan to his father on Thanksgiving morning 1988. When confronted by his father, Martin remained silent; Alex took this silence to mean the allegations were untrue. He turned to his other son, Roger, and called him a liar; Roger left Rite Aid shortly thereafter. One year later, Martin was arrested in Cleveland, Ohio for an attempting to bribe a member of the state's pharmacy board. The charges were eventually dropped, but not before Rite Aid spent $2.5 million in Martin's legal defense.

Even after these cutthroat proceedings came to light, Martin still succeeded his father and became CEO of Rite Aid in 1994. One year later, through the use of private conversation and deception, Martin had convinced the Board that his father was losing his touch and Alex Grass was unexpectedly asked to resign; Martin had finally accomplished his plans to overthrow his father. In an interview with Philadelphia Magazine in 1998, Roger Grass quoted Martin as saying, "Well, buddy, the moment of truth has come… I'm knocking dad out of the box. It's going down tomorrow" (Callahan, 2004:28). Martin's visions for the company – which were in stark contrast to his father's vision - included fast growth and his plans earned him numerous accolades from *Fortune* and other magazines; he was hailed as the "boy wonder CEO" (Callahan, 2004:30). Yet his notoriety would soon turn to infamy.

Martin's disregard for people was not limited to his career and family, his disrespect was carried over to members of his community and the law as well. In 1987, Martin married Jodi Harrison with strong family ties in Virginia. Martin eventually moved to Virginia with his wife and commuted to work in Pennsylvania everyday in his helicopter, a habit much despised by Martin's community and co-workers alike. Martin did not have permission from the township to land his helicopter on a makeshift heliport in the company parking lot; he would just pay the

fines as if they were simply a cost of parking. The helicopter also took up several parking spaces forcing employees and guests to walk considerable distances from available parking lots nearby. Similarly, his neighbors continually filed complaints and noise ordinance violations against him for flying his helicopter at all hours of the day; he simply paid those fines as well (Callahan, 2004).

After investigators started digging into the files at Rite Aid, Martin Grass was caught on FBI surveillance tape reassuring other conspirators that the computer he used to forge severance packages would never be found, "They do not have and will not have the files, unless they use a Trident submarine" (Callahan, 2004:33). After Martin was asked to resign from Rite Aid, he set up camp in his brother-in-law's office and began scheming again on how to cover his tracks. Upon convincing his brother-in-law to execute backdated contracts to hide improprieties, Martin was quoted as saying, "Things only go smoothly if you control the people who work for you" (Callahan, 2004:33). This story, and personal accounts from former coworkers reveal that Martin Grass was a callous, money and power hungry individual who almost succeeded in running his father's company into the ground. He was described as an arrogant bully who pressured subordinates to endorse phony documents and bragged that cover-ups would never be discovered. When all was said and done, Martin Grass pled guilty to conspiracy and was sentenced to eight years in prison for his part in the massive accounting fraud at Rite Aid.

Discussion

This case study is perhaps one of the more extravagant cases in the sample. It is characterized by deceit, family conflict, an overwhelming desire for power and success, and nepotism gone awry. One similarity to the previous case study is the young age at which the individual became CEO. Martin Grass was only 40 years old when he replaced his father as the

head of the company. Martin Grass' history is a rather interesting one; he grew up in a household where, according to his brother, money and success was the currency of love. From the beginning (as early as age fourteen), Martin knew he was next in line to run his father's company, it was nothing that he would have to work to earn, it was simply going to be handed to him when the time came. Yet the time did not come soon enough for Martin and he conspired to have his father ousted. To magnify the point that the position was guaranteed to him, Martin was still promoted after his plans to overthrow his father were revealed and after his arrest for bribing an official. As evidenced in the previous chapter, the more bonded an individual is to their company (measured by the amount of time working for a company before becoming its CEO), the less likely they are to have an SEC violation. Even though Martin Grass worked at Rite Aid for approximately ten years before becoming CEO, his promotion was not something he had to work for; because the position was guaranteed to him regardless of his behavior, he may not have been as committed to the company as he would have been had he worked to earn the promotion. This, along with other factors (e.g., his sizeable disregard for others and his impatience) may very well be at the route of why he enabled his company to offend.

Case Study 3: Lehman Brothers, Inc.

The Company

Henry Lehman and his two brothers Emanuel and Mayer, Jewish immigrants from Germany, founded Lehman Brothers, Inc. in Montgomery, Alabama in 1850. The brothers soon became cotton brokers; they would accept cotton from local farmers as currency to pay debts then trade the cotton for cash or goods. In 1858, they expanded north an opened and office in New York City. After the Civil War, the brothers permanently moved all operations to New York where their commodities business grew to include the sale and trading of securities and

they eventually acquired a seat on the New York Stock Exchange in 1887.

At the turn of the century, Lehman Brothers found themselves financing emerging companies such as Sears, Roebuck & Company, F.W. Woolworth Company, R.H. Macy & Company and many more that would soon prove to be great investments. Over the years, many other large companies would come to rely on Lehman Brothers for financial backing. By the 1960s and early 1970s, the company had expanded overseas opening offices in Paris, London, and Tokyo (Lehman Brothers Corporate Website, Retrieved 2007).

Today, Lehman Brothers remains a major brokerage and investment firm serving individuals, companies, and governments worldwide. While they have not escaped scandal, they have managed to succeed and prosper for the past 150 years with many crediting the more recent successes to the current CEO, Richard S. Fuld, Jr.

The Offense

On April 28, 2003, the SEC filed a civil complaint against the global investment-banking firm Lehman Brothers, Inc., (and nine other brokerage firms) for research analyst conflicts of interest and failure to properly supervise. Research analysts at Lehman Brothers were responsible for gathering and analyzing information (financial and other) about other companies and their industries in order to develop recommendations and ratings regarding each company's securities. These ratings were on a scale of 1 (strong buy) to 5 (sell) and were meant to reflect the analyst's beliefs on how the stock would perform.

Research analysts had always worked closely with the investment bankers in the company without any problems, but things changed when a memorandum sent on August 5, 1999 required the analysts to work even closer. A second memorandum sent by the Managing Director of Global Equity Research on September 14, 1999, further advised that analysts and

investment bankers were to team up as “1 + 1 = $” and the partnership was the key to Lehman’s growth (SEC v. Lehman Brothers, Inc., 2003). The memo also informed the employees that each team member would evaluate the other on effectiveness, building business, and origination and that positive evaluations and business growth stemming from their initiatives would lead to monetary compensation. This of course opened the door for conflicts of interest. The investment bankers relied on the analysts’ reports in order to effectively build business; bad reports did not help the bankers sell IPOs (initial public offerings), good reports did. The investment bankers began pressuring the analysts to “re-analyze” their data and come back with more positive ratings. There were five particular situations (Razorfish, Inc, RSL Communications, Inc., DDi Corporation, RealNetworks, Inc., and Broadwing, Inc.) in which the analysts knew the company they were evaluating was not going to succeed in the stock market but the bankers and their supervisors encouraged the analysts to think more positively before releasing the report to businesses and investors. E-mail conversations between the analysts, bankers, and supervisors revealed that the analysts were outraged at having to produce reports that they themselves did not believe in or support and they expressed frustration at not being able to speak their minds. Replies generally focused on the idea that stock market analysis was not a perfect science, people would take chances regardless of the reports, and business was business. In one particular situation, an analyst made his opposition known when he was forced to change a report; however, the company, RSL Communications, did much better than expected and the analyst was praised for not giving up on the company. That same analyst later issued another positively skewed report hoping for similar luck, yet this time RSL stock plummeted. During the time frame in question (July 1999 through June 2001), analysts never reported a 5 (sell) on any domestic company, and rarely reported a 4 on any stock.

The SEC charged Lehman Brothers for violation of National Association of Securities Dealers (NASD) and New York Stock Exchange (NYSE) rules relating to the dissemination of information. From July 1999 through June 2001, Lehman Brothers "failed to establish and maintain adequate procedures to protect research analysts from conflicts of interest" and these conflicts of interest resulted in the issuance of exaggerated or unwarranted claims that ultimately hurt the investors (SEC v. Lehman Brothers, Inc., 2003:electronic). When reviewing the case, it appears that Lehman Brothers did not *fail* to establish and maintain adequate procedures, they *purposefully* established and maintained *in*adequate procedures by requiring analysts and bankers to work together, evaluate each other, and provide monetary incentives for origination of business. As a result of the charges, Lehman Brothers was ordered to disgorge all proceeds earned through the misconduct and pay civil money penalties (i.e., the cost of doing business).

The CEO

Richard S. Fuld, Jr. was born on April 26, 1946 in New York City, NY, and like the founders of the company, he too is Jewish. He received his BA from the University of Colorado in 1969 and earned his MBA from New York University Stern School of Business in 1973 while working full time. Fuld began his career at Lehman Brothers in 1969 as a commercial-paper trader. In 1982, Fuld was promoted to a supervisory position in which he oversaw all trading at the company. While he had a great reputation as a trader, many criticized his managerial skills; he spoke very little and when he did, he was short and to the point expressing almost no emotion. Regardless of his demeanor as a manager, his division generated record profits.

In 1984, Shearson/American Express acquired Lehman Brothers then six years, later split the two companies into separate divisions once again. After the split in 1990, Fuld became the co-CEO of the Lehman Brothers division. When Lehman Brothers finalized their independence

from Shearson in 1994, Fuld gained the title of CEO. The split created tensions and infighting at the company; rankings were down and there was disagreement on how the company should proceed. Throughout the turmoil, Fuld remained consistent and many outside analysts have credited him alone, with the survival of the company.

One of Fuld's keys to success at Lehman Brothers was keeping his employees happy; salaries were kept in line with earnings (hence the issues leading up to the SEC violation) and successful managers were given generous stock options. In 1994, employees owned 4% of the company; by 2004, they owned 35%. Fuld also promised new recruits that joining his company would make them rich, he followed through with that promise as many of Lehman Brothers employees were self-made millionaires by 2002 (Advameg, Inc. Online, Retrieved 2006-2007).

Fuld has continued to lead Lehman Brothers through the good times and the bad, and he has remained consistent and strong. In January 2004, Fuld was ranked number one in the *Institutional Investor* Best CEO in America survey. He is married to Kathleen Ann Bailey and together they have one son and two daughters. Fuld is also involved in charitable organizations and, among others, is on the board of directors for the Robin Hood Foundation (NNDB, March 2007).

Discussion

This case study does not seem to follow the general trends seen in the previous examples. Fuld became CEO at age 47 (the average age among the sample), he worked his way up through the ranks at Lehman Brothers for 25 years before becoming CEO, and unlike the two previous examples, Fuld continued on as CEO after the company was charged with misconduct. However, Fuld, a weightlifter, was notorious for his bad temper thus earning him the nickname of "gorilla" (NNDB, Retrieved 2007). While Fuld did not directly order the analysts and bankers

to work together, it was his employee compensation program (salaries based on earnings) that may have provided the incentive to generate more business and hence more revenue that ultimately lead to the conflict of interest that generated the false and misleading reports for which the company was charged.

CHAPTER 6
DISCUSSION AND CONCLUSION

Discussion

The current research efforts set out to examine the underlying influences of corporate executive officers (CEO) on corporate misconduct. Specifically, whether there were certain characteristics of CEOs that contributed to the misconduct committed by themselves and/or their companies while controlling for organizational characteristics. Theoretically (and legally), a CEO should know and have control over what is going on in his/her company. Therefore, it could be argued that CEOs would have some influence over the actions (both legal and illegal) carried out by the company. As discussed earlier, access to corporate decision-making power is necessary in order to carry out the more complex offenses such as financial fraud and antitrust violations. It would make sense that particular characteristics of top management would contribute to the success or failure and overall behavior of the corporation through standards put in place and modeled by the CEO.

One particular characteristic of interest in this study was when and where the CEO received his education with the idea that certain schools or programs could be contributing to the learning of deviant definitions. However, the results do not seem to single out one particular university or major among the sample. As expected, the top three majors among the CEOs across samples were economics, business, and engineering. One interesting finding, however, is that the offending sample had a much larger range of majors than the non-offending sample. It is very possible that the majors outside of the top three do not adequately train an individual for a career as a corporate leader. One exceptional example of this is seen in the case study of WorldCom, a major global telecommunications company headed by an individual with a degree in physical education that admitted to having no knowledge about the field in which he worked.

Turning to the earlier discussion, there may very well be a business ethics in education factor underlying these findings, as the offending sample did have more majors outside of the typical business realm. Future research should evaluate this concept, as it may not be the quality or quantity, but rather the presence of business ethics education in all fields that may make a difference.

Perhaps the most interesting finding in this study is that criminological theories by themselves do not appear to be significant predictors of corporate misconduct. It is important to reiterate that this study did not set out to test the ability of criminological theories to predict SEC misconduct, but rather the study utilizes a few aspects of criminological theories to help quide the analysis. Of the theory models presented, control theory appears to have the most impact both on its own and when combined with the business model, together explaining 15% and 70% of the variance respectively. Strain theory, as operationalized here, does not appear to have any impact on SEC violations; it may be that firm performance is indeed a weak predictor of offending as suggested by Clinard and Yeager (1980). As discussed earlier, corporations by their very nature are strongly goal-oriented and concerned with performance therefore all corporations, regardless of their performance level may experience strains from wanting or expecting to achieve more.

It appears as though the business model outperforms the criminological theory models both on its own and in the full model. In Table 8 we see that the significant criminological theory indicators are still significant when combined with the business model but are not significant when acting alone. The indicators in the business model are drawn from the business literature that has examined CEO characteristics as they relate to risky financial actions such as risky investments and risky spending habits (Rajagopalan and Datta, 1996). While the business

literature suggests that this willingness to take risks can help a company succeed, these same risks seem to help a company offend as well. The underlying factor here appears to be risk taking. Future research must expand upon this notion of risk taking as it relates to both success and misconduct. While the mention of risk taking behaviors may illicit thoughts of Gottfredson and Hirschi's (1990) general theory of crime as one avenue of future exploration, it must be noted that recent examinations of the applicability of their theory to white-collar/corporate offending has not lent much support for the idea of low-self control among these types of offenders, rather a desire-for-control approach appears to be more appropriate (Piquero et al., 2005; Piquero et al., 2005). As evidenced in the WorldCom and Rite Aid case studies, the integration of a psychological approach to corporate misconduct may be an appropriate next step to the furtherance of corporate crime research; Bernard Ebbers held an honorary law degree, a field in which he was not entwined. It is likely that this indicates a monetary donation/purchase of the degree which may indicate a power/control issue in Ebbers' personality. Similarly, Ebbers was a born-again Christian who often contributed his success to God; this may be another indicator of his hubris/ego if he perhaps thought that God was speaking to him or working through him. Similarly, this issue with ego is apparent in the Rite Aid example in which Martin Grass felt he was above the law as indicated by the dismissal of his bribery charge and the payment of numerous helicopter citations as simple costs of the commute. Martin Grass' desire for power and disregard for others may not be unique to that particular case. Perhaps personality inventories should be one psychological aspect utilized in the study of corporate crime, as it may be able to identify possible problematic traits. Similarly, as the business model appears to be a better predictor than criminological models in this particular sample, integrating other aspects from fields such as economics may prove beneficial in future research. Simply being in the field

of criminology should not limit one to the use of criminology literature alone; these findings suggest that criminology researchers must embrace other fields to better understand corporate offending,.

The qualitative chapter provides an important first step towards theorizing for future research. The Rite Aid example suggests that there may be something to the socialization taking place earlier in life in more intimate surroundings (i.e., family and early childhood) that may be a factor in future behavior. Similarly, having parents who worked in the corporate world may also provide for certain early corporate socialization skills. These earlier-life factors, from a differential association/social learning perspective, may contribute to later-life corporate behaviors. Unfortunately this richness of data from earlier childhood or pre-working world lifestyles was not readily available on many of the cases in the sample. However, while earlier-life experiences may be a factor in later individual corporate behavior, it must be noted that in the current study, many cases involved misconduct by the corporation rather than misconduct of the individual CEO and therefore the individual early-life factors may not play as important of a role as when the individual engages in the misconduct for their own benefit (occupational vs. organizational misconduct). As Chirayath et al. (2002) suggested, corporate criminal behavior is learned through socialization with competitors and associates. It may very well be that the more recent life events (i.e., marriage, kids, education, etc.) may influence organizational behavior while earlier life events affect occupational behavior. Future research should examine these concepts more fully in terms of whether or not there is a difference in these factors as they relate to organizational vs. occupational misconduct.

Limitations & Future Research

This research is not without limitations. As mentioned earlier, while the depth of detail in the SEC data makes it ideal for this initial step in the study of CEO and offense characteristics, the data is limited by the fact that first, not all violations are caught, and secondly, not all illegal acts are policed by the SEC. The SEC data has also been criticized for its self-report orientation. Companies are required to submit financial and other pertinent information to the SEC on a regular basis. If the SEC detects any irregularities or has any questions, the company must submit additional information to the SEC. At that point, the SEC can choose to initiate its own investigation or close the case. Even though the SEC relies on the companies to provide initial information, it is thorough with its proceeding investigations. While the SEC data was acceptable for this initial investigation, future research should examine other regulatory agency sources such as the Occupational Safety and Health Administration (OSHA), the Environmental Protection agency (EPA), antitrust violations, etc. Similar findings using alternate data sources would help to further the development of an integrated theory approach.

Another limitation with the use of SEC data is that not all complaints or settlements amount to guilt on the part of the organization; sometimes it may be cheaper for a company or an individual in terms of time and money to pay the fine rather than to proceed to court. However, the company/individual did engage in some behavior that aroused the SEC suspicions. Unfortunately, one immense hurdle for white-collar researchers is the unavailability of comprehensive data. Until data collection in the field of white-collar and corporate crime becomes more accessible, researchers will have to continue using the available data, regardless of imperfection. Future research must examine other sources of offending data to see if these

findings hold for other violations or if these results are simply a manifestation of the nature of the SEC data.

An additional limitation lies in the sample of the offending companies within the study period. The sample was limited to Fortune 500 companies because financial and CEO information was more readily accessible than non-Fortune 500 companies. While the SEC reports a few hundred violations every year, only a handful of those are Fortune companies, thus the relatively small offending sample in the study (n=39). However, this is the universe of cases fulfilling the selected criteria and is therefore an acceptable sample. Furthermore, the restriction to the top performing companies in the U.S. may have produced results that are specific to those particular types of companies. Future research should examine smaller companies to see if there are similarities in the results.

Future research should look at top management teams as suggested by Daboub et al. (1995). As can be seen in the case of Rite Aid and WorldCom, other members of top management were working together to carry out the financial frauds at the companies. It was not unusual in this study sample to have other top executives named along with the CEO in the offense (nine cases, or 23% of the offending sample). The current efforts found support for Daboub et al.'s (1995) hypotheses in the singular sense as they related to age, but his hypotheses were not supported as they relate to MBA degrees and military experience. It would be interesting to see if analyses of management teams, as originally suggested by Daboub et al. (1995), produce similar results.

Another aspect that was not possible to address with this sample was sex differences among CEOs and whether or not it related to corporate misconduct. Traditionally, men have been in positions of power within the corporate world but over the years, more and more women

have taken the lead as heads of major companies. Following Fisher's (1999) research that women may be more likely than men to change the rules if they see the rules as unfair, it would be interesting to see if there are sex differences among corporate misconduct or compliance. As women continue to increase their corporate presence, future research may be able to examine this aspect.

Furthermore, the qualitative section opened the door for the need for further examination of a life-course aspect to corporate crime for both the corporation and the actors. For example, it can probably be assumed that legitimate corporations do not form with the expressed intentions to offend, so at what point and under what circumstances does offending occur? Perhaps it would be easier to begin this exploration with the life course of the CEO to try and identify any particular life events that could start/end offending behavior. To do this, the corporate life-course paradigm would have to undergo some minor adjustments, specifically with respect to the age-crime curve. As we see in the current study, the average age of the corporate offender was 52, a far cry from the average age of conventional offenders. This life-course approach to corporate offending could be accomplished through the use of surveys as it is extremely difficult and time consuming to find valid, in-depth, public information on the history of an individual CEO.

Overall, it appears as though the next step in the study of corporate crime is to expand on the theoretical aspects with the intentions of finding an appropriate, replicable explanation for the phenomenon. The criminological theory aspects as utilized in the current study do not appear to be adequate predictors of SEC misconduct; however, this finding may be due to inadequate measures available for the operationalization of the theories. It is also probable that these predictors may vary in different organizations and/or for different crime types. The next step

would be to utilize different measures of offending (e.g., antitrust) and to use different operationalizations of criminological theories that may be better obtained through the use of surveys as opposed to publicly available data. It is imperative that future research utilize different measures before concluding on the applicability of criminological theories in their *traditional/conventional* form to explain corporate misconduct.

APPENDIX
ADDITIONAL ANALYSES

Table A-1: Descriptive statistics: offending sample

	N	Min.	Max.	Mean	S.D.
Profits	32	-8101.00	5807.00	1043.02	2256.95
% return to investors	32	-73.50	219.90	37.79	65.62
Length of conspiracy	39	1.00	84.00	32.41	23.35
Year became CEO	39	1967.00	2002.00	1992.95	8.12
Year started at company	39	1952.00	2001.00	1983.38	13.90
Internal/external promotion	39	1.00	2.00	1.20	0.41
Year CEO born	38	1925.00	1966.00	1945.71	9.64
Race	36	1.00	2.00	1.06	0.23
Sex	39	1.00	1.00	1.00	0.00
# of higher ed. degrees	37	0.00	3.00	1.62	0.89
# of honorary degrees	39	0.00	6.00	0.69	1.28
Military service	39	0.00	1.00	0.26	0.44
# of times married	32	1.00	3.00	1.28	0.52
# of children	32	0.00	8.00	3.00	1.67
Fraternity	39	0.00	1.00	0.15	0.37
Golfer	39	0.00	1.00	0.18	0.39
Age became CEO	38	28.00	64.00	47.66	9.54
Political $	39	0.00	353350.00	33645.82	69273.31
Years as CEO	34	0.00	30.00	9.29	7.62
Years w/co. before CEO	34	0.00	31.00	8.56	9.82

Table A-2: Descriptive statistics: non-offending sample

	N	Min.	Max.	Mean	S.D.
Profits	30	-962.00	4026.00	976.25	1125.66
% return to investors	27	-34.50	289.80	37.56	75.14
Length of conspiracy	30	0.00	0.00	0.00	0.00
Year became CEO	30	1963.00	2000.00	1990.97	7.88
Year started at company	30	1959.00	1999.00	1978.20	12.63
Internal/external promotion	30	1.00	2.00	1.17	0.38
Year CEO born	28	1920.00	1957.00	1943.71	8.04
Race	29	1.00	1.00	1.00	0.00
Sex	30	1.00	1.00	1.00	0.00
# of higher ed. Degrees	30	0.00	3.00	1.57	0.73
# of honorary degrees	30	0.00	3.00	0.30	0.70
Military service	30	0.00	1.00	0.13	0.35
# of times married	25	0.00	4.00	1.04	0.68
# of children	24	0.00	9.00	3.04	2.01
Fraternity	29	0.00	1.00	0.45	0.51
Golfer	29	0.00	1.00	0.45	0.51
Age became CEO	28	30.00	61.00	46.82	6.93
Political $	30	0.00	341500.00	25839.87	61636.18
Years as CEO	30	3.00	39.00	13.20	7.98
Years w/co. before CEO	30	0.00	34.00	12.77	12.07

Table A-3: BS received where: offending sample only (n=39)

	Frequency	Percent
Kettering U.	1	2.6
Michigan State U.	1	2.6
NYU	2	5.1
Princeton U.	1	2.6
Rollins College	1	2.6
Seton Hall U.	1	2.6
Southern Methodist U.	1	2.6
Worcester Polytechnic Institute	1	2.6
Total with BS	9	

Table A-4: BA received where: offending sample only (n=39)

	Frequency	Percent
City College of NY	1	2.6
Cornell U.	1	2.6
Dartmouth	2	5.1
Grinnell College	1	2.6
Harvard College	1	2.6
Haverford College	1	2.6
Macalester College in St. Paul	1	2.6
Mississippi College	1	2.6
Oklahoma State U.	1	2.6
Rutgers U.	1	2.6
St Olaf College	1	2.6
U of Penn	1	2.6
U. of Colorado	1	2.6
U. of Missouri	1	2.6
U. of Notre Dame (BBA)	1	2.6
U. of Wyoming	1	2.6
UNC	1	2.6
University of Miami	1	2.6
Vanderbilt U.	1	2.6
Villanova U.	1	2.6
Wesleyan U.	1	2.6
Williams College	1	2.6
Xavier U.	1	2.6
Total with BA	24	

Table A-5: BS received where: non-offending sample only (n=30)

	Frequency	Percent
Auburn U.	1	3.3
Cornell U	2	6.7
GA Institute of Technology	1	3.3
Marquette U.	1	3.3
Mississippi State U.	1	3.3
Northwestern U	1	3.3
Princeton U.	1	3.3
Stanford U.	2	6.7
Texas A&M U	1	3.3
U of Rhode Island	1	3.3
U. of Wisconsin	1	3.3
UNC	1	3.3
West VA Institute of Technology	1	3.3
Total with BS	15	

Table A-6: BA received where: non-offending sample only (n=30)

	Frequency	Percent
Catholic U. of America	1	3.3
Colgate University	1	3.3
Denison U.	3	10.0
Ecole des Hautes Etudes Commerciales	1	3.3
Harvard	1	3.3
Stanford U.	2	6.7
Temple U	1	3.3
U. of Minnesota	1	3.3
U. of Penn	1	3.3
U. of Washington	1	3.3
Total with BA	13	

Table A-7: State CEO was born

	Offending sample	Non-offending sample
AL	1	
CA		1
FL	2	
GA	1	
IL		1
IN		1
KS		1
KY	1	
MA	1	1
MI	1	1
MN	1	1
MO	1	
NE	1	
NJ	4	3
NM	1	
NY	6	4
OH		1
PA	3	2
SC		1
SD	1	
TX		1
UT	1	
VA	1	
WA		1
WI		1

Table A-8: State location of corporate headquarters

	Offending sample	Non-offending sample
AL	1	
AR	1	
CA	1	8
CO	1	
CT	2	
GA	1	2
IL	1	2
IN		1
KY		1
MA	1	
MI	1	1
MN		1
MO	1	
MS	1	
NC	1	2
NJ	3	1
NY	13	1
OH		1
PA	1	1
RI		1
TN	1	1
TX	5	3
VA	1	1
WA	1	1
WI		1

Table A-9: Correlation matrix

	Profit2	Retinv2	Comit	Int/ext	Bornyr	Numdegre	Mba	Honoredu	Military
Profit2		-.018	.019	-.230	-.236	.210	-.006	.066	.121
Retinv2			.002	-.014	.093	-.021	.033	-.102	-.051
Comit				.049	.111	.034	.021	.182	.152
Int/ext					.060	.290*	.049	.042	-.059
Bornyr						-.018	.166	-.259*	-.484*
Numdegre							.595*	.144	-.107
Mba								.033	-.130
Honoredu									.259*
Military									
Martime									
Kids									
Frat									
Ageceo									
Golfer									
Campmon									
Co2ceo									
Ceotenur									

Table A-9 (Continued)

	Martime	Kids	Frat	Ageceo	Golfer	Campmon	Co2ceo	Ceotenur
Profit2	.075	.188	-.073	.289*	-.115	.108	.090	.006
Retinv2	.264	.015	.120	-.288*	.182	.099	-.290*	.210
Comit	.201	-.012	.022	.049	-.292*	.059	-.192	-.246*
Int/ext	-.213	-.131	.026	.109	-.129	.062	-.471*	-.249*
Bornyr	.074	-.201	.120	-.590*	-.118	-.159	-.215	-.469*
Numdegre	-.216	-.002	.066	.351	-.021	.177	-.118	-.384*
Mba	-.155	-.008	-.015	.122	.042	-.010	-.088	-.240
Honoredu	.041	.101	.027	.250*	-.018	-.032	.109	.058
Military	-.080	-.106	-.109	.263*	-.009	.190	.202	.287*
Martime		.460*	.051	-.294*	-.192	.078	-.153	.187
Kids			-.004	.152	.129	.185	-.147	.004
Frat				-.126	.005	.432*	-.001	.102
Ageceo					.152	.061	.298*	-.413*
Golfer						-.126	.111	-.074
Campmon							-.041	.129
Co2ceo								-.080
Ceotenur								

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BIOGRAPHICAL SKETCH

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