

MEDIA AND FRAUD – ACCOUNTING AND ACCOUNTABILITY

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Introduction

Accounting is a profession based on integrity and ethics. Many individuals aim to live ethically but fall short when pressures fall upon them. This is prevalent in our society; for example, celebrities often fall into drugs and other types of reckless behavior when they face the pressures related with fame and constant media attention. This is also the case in the accounting profession. Heavily publicized accounting scandals such as Enron and WorldCom (Segal 2018) were prominent examples of individuals succumbing to this pressure to behave in an unethical manner. The pressures on individuals could increase the likelihood of committing fraud, including pressures from the media on their organization or company.

Background

Media can play a huge role in the decisions of individuals. Kepplinger found, “Some people react to past media coverage, and others behave in a specific way to stimulate future media coverage,” (2007). This provides motivation for my research. If people can react to media coverage, whether positive or negative, to continue or improve the way the media sees themselves or their company, then does media coverage directly influence an individual’s likelihood to commit fraud? Is media a direct factor in this unethical act? Kepplinger went on to discuss the impact of the media on subjects they cover concluding that their reaction is dependent on the topic, intensity, tone, framing, etc. (2007).

Tausch and Zumbuehl researched how media affects an investor’s likelihood to take risks. They found that short term increases in good news led to higher willingness to take risks, while long term increases in good coverage lowered their willingness to take risks (2018).

Negative coverage lowered the likelihood of individuals to invest no matter the length of coverage (2018). Since accounting choices impact stock price, to the extent the individuals within the organization are aware of the impact of media coverage on investment decisions, individuals may be motivated to manage media perception. These findings related to stock market investments provide a strong foundation for the same behavior to take place in the accounting function of an organization. I test this relationship between media coverage and individuals' propensity to behave aggressively in an accounting setting to identify if a similar effect is displayed in individuals who prepare financial statements .

Purpose of the study

If media coverage impacts an employee's likelihood to commit fraud, then companies could adjust or develop programs to lessen these risks. This could help companies outline how their company's reputation has an effect on the way employees perform at work. The pressures can be addressed, and internal controls can be strengthened to help deter employees from committing fraud. This research addresses a new topic within the accounting field and could shed light on why employees commit fraud.

Research questions or hypotheses

This study is investigates two research questions: How does media coverage affect individuals' propensity to commit fraud? Based on this, my second research question is: What is the interaction between media coverage and pressure? This study provides insight into the relationship between positive and negative media coverage and pressure.

Methodology

This study was conducted using the MBA and MSA students at East Carolina University. Individuals were asked their likelihood of reporting revenue based on a scenario developed for this research study. At no time during the experiment are participants made aware that we are testing their likelihood to commit fraud, and participants do not see any reference to fraud, as that could alter their willingness to report truthfully. This in part is due to the social desirability bias that will prohibit individuals from answering in a way that is looked down upon in society. Participants are asked to answer based on a 5-point (Yes/No) Likert scale on whether they would recognize revenue under that scenario. Individuals are also asked to answer the same questions from the perspective of an average MBA/MSA student at ECU to help mitigate social desirability bias.

The dependent variable in this study is the propensity to commit fraud. This will be measured using the Likert scale. The independent variables will be media coverage and pressure. Media coverage is tested at positive, neutral, and negative tones, while pressure is tested at high and low.

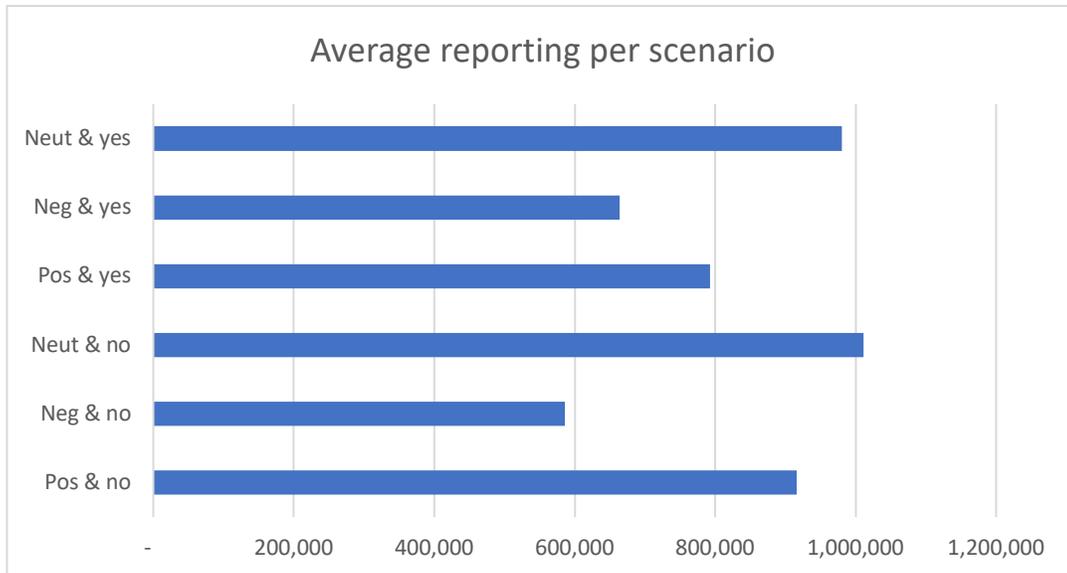
Results

After administering the survey face-to-face, we gathered 96 responses to be used for analysis. With the gathered responses, we exported the data into the SAS software, where we ran statistical tests to determine whether media coverage or pressure had a significant effect on an employee reporting aggressively. The first test was to determine whether the independent variables media attention, either positive or negative, and pressure had significant effects on the decisions of both MSA and MBA students. The second and third tests tested each

independent variable separately to determine if it had statistical significance. We found that media attention had statistical significance.

Looking at the Pr>F column in our results, you can see that the variable has a value less than 0.05, which is the limit for statistical significance. This suggests that participants report revenue differently based on the presence of positive or negative media coverage opposed to neutral coverage. This does not directionally support my hypothesis. However, these findings show that individuals are more likely to report aggressively if their company has a more under-the-radar presence in comparison to a huge company that people either love or hate.

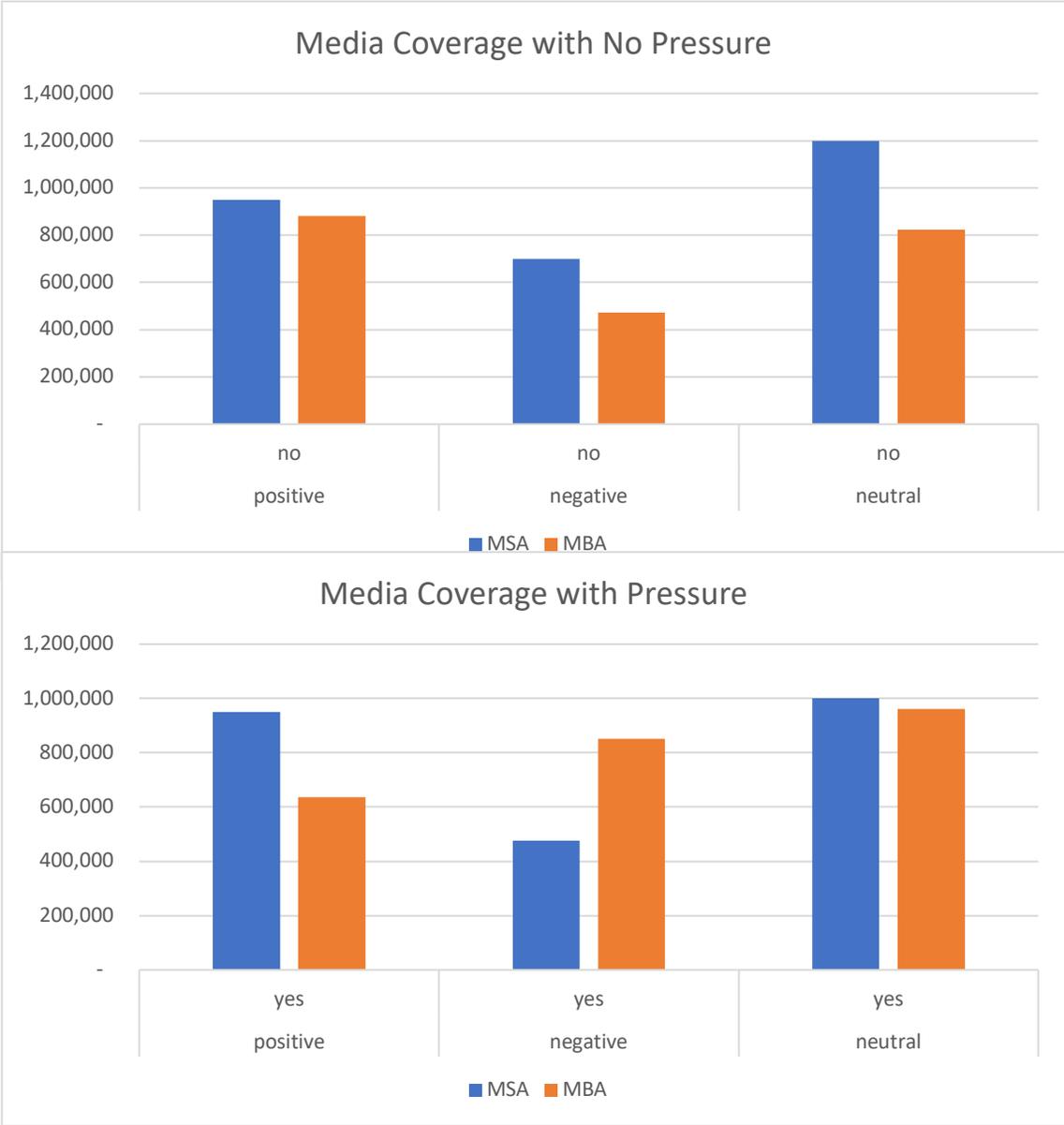
Following this trend, positive and negative media coverage made people more likely to report less revenue. Media attention had a Pr>F value of 0.0099, which is statistically significant. This demonstrates the impact of media on an individual's actions, which has not been tested previously in the accounting field. After completing this study, it appears that media played a role in reporting, but what we found was not expected. Analysis of the means shows that the highest average reporting occurred when media coverage took a neutral stance on the company. Neutral media coverage and no pressure scenarios reported an average of \$1,011,111 and neutral media coverage with pressure reported an average of \$980,556. Positive media coverage was next for the aggressivity of the reporting, with the average reporting of the positive coverage and no pressure at \$915,909, and the positive coverage with pressure at \$792,728. Negative media coverage and pressure reported an average \$663,857 and negative coverage with no pressure reported \$586,111.



These findings showed participants behavior is malleable depending on outside factors/appearances of their company. As a covariate, we asked participants to rank the level of effect the conversation with the CFO (pressure) in their scenario had on their decision-making, and then as a follow-up how much that same conversation would affect another person reading the scenario. Majority of individuals responded that they were affected by the scenario, which was accurate, suggesting that participants were aware that their judgement was being affected.

After gathering the data, we decided to look at each population sample separately to determine whether the type of education you receive will affect your revenue recognition tendencies. We found that MSA students were more likely to report higher amounts of revenue in all cases except in the presence of negative media coverage and pressure from upper level management. This was an interesting finding because it shows the red flags accounting

students are taught about pressure and the stereotype that pressure only occurs when a company is doing poorly.



Closure

This research will be a great addition to the accounting field. If there is a relationship between a likelihood to commit fraud and media coverage, companies can put steps in place to reduce this likelihood. The accounting field has been trying to secure its ethical presence since the scandals from Enron, etc. and this research will provide a ground to develop better internal controls and processes to reduce pressure or the effects of pressure. Scandals such as those that occurred, can taint accountant's reputability and overall tarnish our profession. If any light can be shed on how to prohibit this, then the accounting profession can continue to prosper and hold companies accountable for ethical reporting.

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