J Bus Ethics (2017) 144:637–659
DOI 10.1007/s10551-015-2851-6

Media Bias and the Persistence of the Expectation Gap: An Analysis of Press Articles on Corporate Fraud

Jeffrey Cohen[1] · Yuan Ding[2] · Cédric Lesage[3] · Hervé Stolowy[3]

Received: 24 June 2014 / Accepted: 3 September 2015 / Published online: 9 September 2015

Abstract Prior research has documented the continued existence of an expectation gap, defined as the divergence between the public's and the profession's conceptions of auditor's duties, despite the auditing profession's attempt to adopt standards and practices to close this gap. In this paper, we consider one potential explanation for the persistence of the expectation gap: the role of media bias in shaping public opinion and views. We analyze press articles covering 40 U.S. corporate fraud cases discovered between 1992 and 2011. We compare the auditor's duties, described by the auditing standards, with the description of the fraud cases as found in the press articles. We draw upon prior research to identify three sources of the expectation gap: deficient performance, deficient standards, and unreasonable expectations. The results of our analysis provide evidence that (1) the performance gap can be reduced by strengthening auditor's willingness and ability to apply existing auditing standards concerning fraud detection; (2) the standards gap can be narrowed by improving existing auditing standards; and (3) unreasonable expectations, however, involve elements beyond the profession's sphere of control. As a result, the expectation gap is unlikely to disappear given the media's tendency to bias, with an overemphasis of unreasonable expectations in their coverage of frauds and press articles tending to reinforce the view that the auditor should take more responsibility for detecting fraud, irrespective of whether this is feasible at a reasonable cost. In addition to the primary role of the press in perpetuating the expectation gap, a second reason for continuation of the expectation gap is that the rational auditor will have difficulty in assessing subjective components of fraudulent behavior.

Keywords Expectation gap · Media bias · Corporate fraud · Management behavior · Press · Fraud-related professional standards

Introduction

The expectation gap (EG) was first conceptualized by Liggio (1974) and is defined by Sikka et al. (1998) as "the differences between what the public expects from an audit and what the auditing profession prefers the audit objectives to be." A critical element of the EG involves frauds: the public views the auditor's responsibility as providing a guarantee that there is no fraud, while the auditor views his responsibility as investigating for fraud without being obliged to detect every instance of fraud (Humphrey et al. 1992; Power 1997; Dewing and Russell 2001). The EG is a significant problem for the auditing profession because it damages the auditor's reputation and increases litigation risk (Kaplan 1987; Reckers et al. 2007; Zhang 2007). In 1988, the AICPA issued the "Expectation Gap standards" in an attempt to shrink the gap. These standards explicitly considered the auditor's responsibility for detecting fraud [statement on auditing standards (SAS) 53]. The subsequent issuance of two more standards (SAS 82 in 1997 and SAS 99 in 2002) expanding the auditor's duties with regard to fraud (Herdman and Neary 1988) suggests ongoing problems with closing the gap.

✉ Jeffrey Cohen
cohen@bc.edu

1 Carroll School of Management at Boston College, Chestnut Hill, USA

2 China-Europe International Business School (CEIBS), Shanghai, China

3 HEC Paris, Jouy-en-Josas, France

In this paper, we explore the persistence of the EG despite these corrective actions. More specifically, by examining how the press reports corporate frauds, we explain why the EG is likely to continue in the future due to a media bias.[1] At its basis, the EG involves discrepancies between the beliefs of information producers (the auditing profession) and the beliefs of information consumers (the public) (Humphrey et al. 1992). Prior research emphasizes the perspective of professional users of audited financial statements, such as managers, corporate finance directors, investment analysts, bank lending officers, and financial journalists (Arrington et al. 1983; Humphrey et al. 1993), while the perspective of the general public remains under-explored (European Commission 2010). It is clear that the authorities have a broader view in mind than the needs of professional users only. In a speech entitled "Restoring Public Confidence," James G. Castellano, former chair of the AICPA, claimed that "the AICPA shares the distress of *all Americans* concerning the tragic breakdowns that contributed to the fall of Enron…[and]…is actively engaged in supporting and implementing reforms on a number of fronts in an effort to restore *public confidence* in the capital markets" (Castellano 2002, pp. 37–38, emphasis added). Michael H. Sutton, the former SEC chief accountant, defined the EG as the "gap between what the *ordinary* person was thought to perceive as the auditor's role and the responsibilities the profession established for itself" (Anonymous 1997, emphasis added).[2]

We use press coverage of fraudulent behavior to develop an understanding of the media's attitude toward the audit function in the circumstances of frauds, an approach that has been used to examine the perception by the general public of audit opinions (Joe 2003), fraud (Miller 2006), and excessive compensation (Core et al. 2008). As noted by Drake et al. (2014, p. 1677), only recently researchers have begun to investigate the role of the business press as an information intermediary; the business press is perhaps the "broadest and most widely disseminated of all potential information intermediaries, reaching both sophisticated and unsophisticated investors, as well as managers, regulators, and other market participants" (Bushee et al. 2010, p. 2).

We argue that unreasonable public expectations regarding the auditor's fraud detection responsibility are likely to persist because of a widespread bias by most mainstream news producers. Prior research suggests the existence of a media bias in shaping public opinion (Andon and Free 2014; McCarthy and Dolfsma 2014): as Gentzkow and Shapiro (2006) note, the media has its own self-interests in defining and maintaining its role. More precisely, these authors build a model of media bias in which "firms slant[3] their reports toward the prior beliefs of their customers in order to build a reputation for quality" (p. 280). In other words, a given media outlet tries to understand consumers' prior beliefs in deciding what stories to cover and, more importantly, what "slant" or tone to use in conveying the story. Consumers who have their prior beliefs (biases) reinforced through the tone of a story's coverage are more likely to perceive the story's content as factual (high quality). Along the same line, the media determines what stories to cover, following the "consumer demand" for their investigative reporting role (Core et al. 2008). McCarthy and Dolfsma (2014) further suggest that by choosing what events to report upon, how much and how frequently to report on an event, and by choosing what descriptive tone to adopt in their coverage, the media has a non-neutral impact on the economy. Moreover, in the EG context, the general sensationalist tone of the mainstream press is presumably driven and reinforced by the preferences of news consumers for greater auditor responsibility to detect fraud above and beyond the responsibilities stated in the auditing standards. Furthermore, the press has a role as a public "watchdog" (see, e.g., Miller 2006). Thus, the press may set unrealistic expectations to their readership on what auditor actually should do in the case of fraud.

We conduct an analysis of press articles covering 40 high-profile fraud cases identified by Cohen et al. (2010).[4] The analysis is framed by Porter's (1993) total EG components model (performance gap, divided into deficient performance, deficient standards, and reasonableness gap

[1] Andon and Free (2014) provide a detailed definition of media bias. They argue that bias in the print media may take three forms: gatekeeping bias, coverage bias, and statement bias. There is an important field of literature on media bias in the political science discipline (see, e.g., Kuypers 2002).

[2] For example, the European Green paper (European Commission 2010) speaks about the societal role of auditing, thereby enlarging the traditional shareholder-oriented perspective of the auditor's role. One reason for this broader conception resides in Enron's collapse, as the victims in that case were the employees and individuals who had worked for Enron and/or invested in Enron's pension funds. Silvers [Associate General Counsel for the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)] (2007) further states that the auditing profession must respond to the concerns of the millions of U.S. "worker-owners" who invest their money directly or indirectly (through benefit plans and healthcare plans) into audited companies, as they have the most to lose from an investment decision based on inaccurate financial disclosures.

[3] Gentzkow and Shapiro (2010) construct a measure of media slant. Their index measures the frequency with which newspapers use language that would tend to sway readers to the right or to the left on political issues. Gans and Leigh (2012) suggest different measures of media slant in the political area.

[4] Cohen et al. (2010) identified 37 cases. We updated their database which ran until 2005 and added three more recent cases. These data were initially used by Cohen et al. (2010) to examine how the attitude and rationalization component of the fraud triangle can be documented through the use of press articles. That study did not use the data to examine the EG nor did it look at media bias in framing the perceptions of the fraud by the general public.

corresponding to unreasonable expectations). We first identify items cited in both press coverage and SAS 99 (AICPA 2002), but not taken into account in the auditor's fraud likelihood assessment and regard these items as audit failures arising from deficient performance. We then identify items vaguely defined in SAS 99 (such as the concept of "rationalization") or items not cited in SAS 99 because of a divergence between this standard and international auditing standards, and regard these items as audit failures arising from deficient standards. Finally, we identify items cited in the press but not in SAS 99 relating to issues such as personality, and regard these items as audit failures arising from unreasonable expectations driven by a media bias.

Our analysis shows that, while the gap related to deficient performance and deficient standards can be further reduced by extra efforts from the auditing profession as a whole and auditor himself as individual, the gap related to unreasonable expectations is likely an outcome of a media bias mentioned above, which will be nearly impossible for auditor to manage. This gap is also concerned with value judgments about managers' behavior. These value judgments are reinforced through the biases of news producers, who presumably are trying to meet the demands of news consumers for sensationalized accounts of managers' behavior as it relates to fraud. These expectations, in turn, reflect a preference of at least some press sources for an anti-business slant. This gap therefore pertains to elements that are beyond the auditor's sphere of control or expertise, and it is difficult—if not impossible—to close this gap through increased professional effort. Therefore, our analysis confirms the persistence of the EG and suggests that it will continue to persist due to two factors: the effect of media bias and sensationalism and the auditor's reluctance to assess these subjective indicators of fraudulent behavior.

This study contributes to the existing literature on the EG in the following ways. First, we document evidence of unreasonable public expectations that emanate from the bias of the press that are related to value judgments, in addition to those already documented for the professional users and related to some confusion about the role or the boundary of the duties of the auditor (Porter 1993). Second, from a methodological perspective, an analysis of press articles that address the general public at large, instead of questionnaires filled in by specific occupational groups, provides a very rich dataset to demonstrate the influence of the press on the public side of the EG.

The remainder of this paper is organized as follows. The next section presents a literature review and our overarching research question, which is based on the concepts of EG and media bias. The following sections discuss an analytical framework, our sample, the research methodology, and our results. The last section presents a discussion, indicating limitations and some directions for future research.

Literature Review and Research Question

In this section, we first consider the relationship between public opinion and media bias. We then address the evolution of the EG. Finally, we relate media bias and the EG and conclude with an overarching research question.

Public Opinion and Media Bias

The media in general and the press in particular have a crucial role as an agent in forming and reflecting public thoughts (Lippman 1922): it both reflects public thoughts and functions as a monitor on behalf of the general public. The role of the press is to collect, select, certify, and repackage information (Dyck et al. 2008, p. 1098). However, the press does not operate in a vacuum. Writers and editors work on the basis of what they know and how they feel and are subject to the social environment in which they exist. Media channels (press, TV, internet, etc.) have a specific point of view (bias). This can be categorized in terms of the sociopolitical viewpoint ("conservative," "centrist," "liberal," "progressive," etc.) of its editorial board, news directors, reporters, and its readership. In order to maintain credibility and survive financially, the press tends to reflect the beliefs and values of the majority of their readers and may act as the defender of values held by its own particular readership that they are responding to (Price and Tewksbury 1995). For example, in the business arena, the press is known to play a role in monitoring fraud (Miller 2006; Dyck et al. 2010; Qi et al. 2014) and exerting pressure on management (Dyck et al. 2008). The press has been shown to influence audit opinion (Joe 2003) and has been vocal about curtailing what is deems to be "excessive" executive compensation (Core et al. 2008; Kuhnen and Niessen 2012). Miller (2006) found that the business press in particular was instrumental in the investigative reporting that brought many of the financial frauds to light. Thus, the study of press coverage of frauds serves to shed light on the underlying public's view (values and beliefs about the fraud). Further, coverage of fraud for press is instrumental in promoting momentum for regulatory changes (Tricker 1982) such as passing the Sarbanes–Oxley Act (SOX) as well as the establishment of the PCAOB (Goelzer 2006).

Media bias mentioned above plays an essential part in selecting what stories to report. High-profile fraud stories will normally be covered because of their perceived impact on society. However, as Gentzkow and Shapiro (2006) illustrate, the framing and tone of the story will reflect the biases of the news outlet and its intended audience. In particular, news outlets with a liberal or progressive (anti-business) slant will tend to emphasize the "evilness" of the corporation and the behavior of its fraudulent managers, and the impact of the fraud on its victims (Levi 2006). Benediktsson (2010) investigates news coverage of six large-scale accounting scandals that broke in 2001 and 2002. Using a variety of empirical methods to analyze the 51 largest U.S. newspapers, the study tests several explanations for tendencies to run more or less coverage of the scandals in question. The results suggest that scandal coverage was influenced by the political ideology of newspapers, as opposed to economic interests or social structural ties between firms.

Several of the fraud articles we cite come from the mainstream general press outlets with a relatively more anti-business orientation (e.g., The New York Times, The Washington Post, The Chicago Tribune, USA Today, etc.)[5]. Several others, however, have been published in business journals which are presumably more pro-business (the Wall Street Journal, Forbes Magazine, Fortune, Dow Jones Corporate Filings Alert, Dow Jones International News, Dow Jones News Service, and Business Week), which does not mean that these sources do not use sensationalism. Consequently, one can reasonably expect that the coverage of major frauds by mainstream news and business outlets will tend to overall reflect a media bias (Groseclose and Milyo 2005; Lott and Hassett 2014) in order to meet the expectations of the majority of their consumers.

Existing studies also suggest that the press does not merely reflect public opinion but shapes it as well (e.g., Barker and Knight 2000, pp. 167–168). Johnson et al. (2005) suggest that the mechanism by which the press shapes the public's view is twofold: the press acts as an information broker, recording and disseminating information about business activities (Bushee et al. 2010; Drake et al. 2014), and it also acts as an active participant in the development of society's awareness, understanding, and evaluation of businesses and business practices. The influence of the press is even more predominant in our particular context because of information asymmetries and disconnection between the daily life of the general public and the corporate world. As Lippman (1922) explained, few people in society actually experience corporate board meetings, make billion-dollar decisions, interact with complex networks, or understand sophisticated accounting and finance instruments. The real corporate world is foreign, even mysterious, to the public.

This role of the press in simplifying these matters for public consumption is substantial, especially in the context of auditing, where the public rarely encounters the actual output of the auditing function since audit reports have a very limited circulation and readership (Humphrey et al. 1992, p. 149). Press articles serve the information function by covering technical and legal aspects of corporate frauds, sometimes with a "dumbing down" of complex accounting and auditing issues to make them understandable by relatively uninformed readers. They often extend this role by investigating the personal traits of the executives involved, in an effort to provide a "human interest" element to the readership. This "human interest" element causes the stories to become more salient to the general public.[6] The combination of this "human interest" element and the simplification of technical issues help focus public opinion on tractable and interesting aspects such as managers' personality traits and their supposed links to the commitment of frauds. It even leads to a reality-journalism tone and a trend towards "infotainment"[7] in the news media in their coverage of corporate frauds, particularly when fraud coverage emphasizes the lavish lifestyles and related behaviors of executives (Jackson 2005; Levi 2006). In New Zealand, Van Peursem and Hauriasi (1999) analyze professional reputation by looking at the content of articles written about or including the professional auditor in the popular press. The analysis develops a taxonomy to analyze press portrayals of the auditor, evaluates those portrayals, and concludes with reputational implications of the 494 articles identified in the period from 1991 through 1997. They found that, particularly in the daily publications reviewed, repetition of stories is common, stories with conflict take precedence, and official documents provide a significant source of news. The study concludes that the New Zealand press coverage of the auditing profession appears to be widely influenced by news production necessities and by the desire to entertain.

Press influence on the public opinion is greater when it reports bad news than when it reports good news (Barker and Knight 2000), and the sensationalist tone in some media coverage of frauds may push public expectations toward greater auditor responsibility for fraud detection. For example, hindsight bias suggests that public knowledge that a fraud has occurred can lead the public to ascribe responsibility to the auditor in detecting fraud even if

[5] According to Groseclose and Milyo (2005), in a political context, the majority of U.S. mainstream general news sources through the early 2000s, with the exception of Fox News and the Washington Times, reflect a moderate or liberal orientation.

[6] For example, if the press portrays the cases in personality terms, this could match people's fundamental beliefs, as members of the public may believe that these cheating executives must have some unique personality traits common to "bad" people.

[7] This concept has been developed in the communication literature (e.g., Thussu 2007).

finding it may have been extremely difficult (Fischhoff 1975). This hindsight bias may also take the form of reinforcing expectations that the auditor's work should include a critical assessment of executives' personality traits,[8] and not focus solely on evaluating the internal controls of the firm (Christensen-Szalanski and William 1991). In addition to this, the possibility for recursive effects exists to the extent that auditor is sensitized by press coverage to alter his behavior.

In summary, there is a strong and complicated relationship between press coverage and public beliefs. Overall, our review of prior literature strongly suggests that a media bias influences the public's views and perceptions of corporate frauds.[9]

Fraud and the Expectation Gap

A large number of empirical studies have tested and confirmed the existence of the audit EG (Arrington et al. 1983; Benau et al. 1993; Humphrey et al. 1993; Porter 1993; Warming-Rasmussen and Jensen 1998). According to the auditing profession, the EG mainly arises from two public perceptions. First, the profession argues that non-professional users of the audit report are largely ignorant of the precise nature, goals, abilities, and assurances of the audit function (Singleton-Green 1990; Humphrey et al. 1993). Second, the auditor perceives that the public has unreasonable expectations of the auditing profession (Humphrey et al. 1993; Dennis 2010). Both arguments hold a great deal of intuitive appeal, and there is a substantial body of work addressing the first point, but there is minimal attention to an empirical demonstration of the second point. Beyond the profession's traditional explanations, many studies have focused on understanding the causes of the EG by analyzing different features of the auditing profession (e.g., Cohen Commission 1978; European Commission 2010).

One of the most important issues concerns the auditor's responsibility for detecting and reporting fraud (Humphrey et al. 1992; Power 1997; Dewing and Russell 2001; Zikmund 2008). Auditor historically builds his legitimacy on fraud detection (Carpenter and Dirsmith 1993); as stated by Clikeman (2009, p. 124), "audits, from antiquity through the end of the nineteenth century, focused on detecting fraud." However, auditor has subsequently distanced himself from this focus by moving toward longer-form audit reporting which emphasizes general audit responsibilities instead of the specific considerations and findings discovered during the audit (Humphrey et al. 1992, p. 147). Humphrey et al. (1992) discuss how, from the late 1880s to the 1940s, detection of fraud was considered by the profession to be the primary objective of the audit (Brown 1962). This view shifted in the 1950s, possibly as a result of assigning priority to the fairness of financial information; alternatively, some authors have suggested that fraud-related corporate scandals in the 1950s damaged the auditor's reputation so seriously that the profession wanted to downplay its fraud detection responsibilities and minimize its legal exposure (Brown 1962). Later, following the corporate scandals of the 1980s, the pressure on auditor revealed the auditing profession's reluctance to accept substantive responsibility for fraud detection (Humphrey et al. 1991).

Regulatory action reflects these shifts and has in recent years been characterized by competing perspectives on public expectations versus the auditor's duties. The profession plays a proactive role in the cycle whereby a crisis gives rise to a public demand, which in turn gives rise to a change in regulation (Humphrey et al. 1992). In 1988, the AICPA issued a set of auditing standards intended to address the EG (Reckers and Schultz 1993). SAS 53 required auditors to state that they actively looked for fraud (Guy and Sullivan 1988), replacing the earlier presumption that they would report fraud if observed, but not specifically search for it. This standard marked a major shift in the AICPA's efforts to clarify the auditor's responsibility and the meaning of an audit (Anonymous 1991). Unfortunately, these new duties seem to have widened the gap, not narrowed it (Anonymous 1991): the standard increased the public's expectations regarding the auditor's duties to detect fraud. With the development of SAS 82 in 1997 and SAS 99 in 2002, the auditor's involvement in the search for fraud was reinforced (see Clikeman 2009, p. 277), leading the profession to believe that the EG might be reduced by better developing the auditor's ability and efforts to detect fraud (Guy and Sullivan 1988).

Historically, after a highly publicized accounting fraud, the succeeding period of reflection and regulation changes appears to be mainly driven by the auditing profession's self-interest. Failing to consider the "…interested nature of the audit profession in both framing the content of the EG and in making and implementing recommendations and strategies designed to close the gap…" may lead to an understanding of the EG which makes it impossible to close (Humphrey et al. 1992, p. 156). Sikka et al. (1998) explain

[8] SAS 99 (AICPA 2002) and ISA 240 (IFAC [International Federation of Accountants] 2005, 2009) include some consideration of these issues. In SAS 99, for example, personality traits are not mentioned per se. In the description of the concept of "rationalization," the standard only refers to "some individuals [who] possess an *attitude*, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act." (Para. 7) [emphasis in the original text].

[9] Gurun and Butler (2012) show that when local media report news about local companies, they use fewer negative words compared to the same media reporting about non-local companies. They document that one reason for this positive slant is the firms' local media advertising expenditures. We believe that this result is not incompatible with our research question and results because all the companies involved in the cases of corporate frauds are "non-local," i.e., well-known national U.S. firms.

that the EG is a function of the shifting meaning of auditor's fraud detection role in the U.K. during the 1980s and 1990s (Singleton-Green 1990), and conclude that the EG cannot be eliminated because it results from social practices that are subject to a continuous process of negotiation and transformation. Auditing standards reflect the auditor's preference in a given political context (Sikka et al. 1998), and auditing standards and the auditing profession work to protect their self-interest (Parker 1994; Bazerman et al. 2006). Prior literature suggests that the EG may not necessarily be related to the public's ignorance or their "unreasonable" expectations, but rather to the self-regulated nature of the auditing profession (Humphrey et al. 1992; Sikka et al. 1992; Humphrey et al. 1993), which seeks to downplay as far as politically possible the profession's role in actively searching for fraud, in order to better protect its interests.

Media Bias and the Expectation Gap

The ignorance above mentioned of non-professional users of the audit report regarding the precise nature, goals, abilities, and assurances of the audit function participates in the mechanism through which a media bias can shape public opinion that corporations are evil, and therefore auditors have a moral responsibility to bring evil corporate fraudsters to justice. The media have an opportunity to exploit this ignorance by sensationalizing the coverage of corporate frauds, thereby increasing the public's unreasonable expectations of auditor responsibility for fraud detection and widening the EG.

The above analysis and discussion suggest that the majority of news coverage of a particular fraud will both reflect and reinforce an emphasis on the very aspect of the EG that the auditing profession is least capable of addressing unreasonable expectations. The established connection between the public's expectation of auditor's duties and press coverage of frauds, within the context of shifting professional perceptions of responsibility for fraud detection, leads to the following overarching research question:

RQ: Is the difference between public expectations and the auditing profession's perspective on the auditor's responsibility to detect fraud influenced by a media bias, i.e., an overemphasis on unreasonable expectations in press coverage of frauds?

Research design

Analytical Framework

We propose a framework based on Porter's model, which divides the EG into a performance gap and a reasonableness gap (Porter 1993, p. 50). The performance gap is "a gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve" (Porter 1993) and is subdivided between (1) deficient performance, which following Porter (1993) is defined as "a gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance," and (2) deficient standards, which Porter (1993) defined as "a gap between the duties which can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgations." The reasonableness gap is defined as "a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish."

Sample

As discussed above, we analyze press coverage of corporate frauds and auditing standards as a proxy for auditor's preferences in a given political context (Sikka et al. 1998). We examine 742 press articles covering 40 corporate frauds. 707 of these articles were previously used by Cohen et al. (2010) to identify the influence of the attitude/rationalization component in the frauds; however, this paper examines the issue of understanding the EG, a matter that was not evaluated by Cohen et al. (2010). The additional articles reflect updating that permits the sample to include cases after Cohen et al.'s (2010) sample ended in 2005.

The Cohen et al. (2010) dataset was developed using the Corporate Scandal Fact Sheet, a list of 61 short vignettes on companies.[10] Unlike other commercially available lists, the Corporate Scandal Fact Sheet includes the names of the main individuals involved. All companies that were related to other companies already cited were excluded: four accounting firms, ten banks, two companies related to the Royal Ahold scandal, and eight other companies that had no data available on the individual traits of their managers. The resulting sample from Cohen et al. (2010) includes 37 frauds perpetrated in the U.S. during the period from 1992 to 2005. We updated this sample to now include 40 frauds during the period from 1992 to 2011.

Method

Press articles were obtained from the U.S. press coverage contained in the Factiva database.[11] We supplemented these articles with SEC documents and the GAO report

[10] Available at the following address: http://www.citizenworks.org/Citizen Works—Corporate Scandal Fact Sheet.pdf. Last retrieved: August 31, 2015.

[11] Factiva (Dow Jones Factiva) is a non-academic database of international news containing 20,000 worldwide full-text publications including *The Financial Times*, *The Wall Street Journal*, as well as

(United States General Accounting Office 2002) to understand the technical and accounting aspects of each corporate fraud. For each fraud case, we first identified the managers involved in the fraud using the Corporate Scandal Fact Sheet or a Factiva search on the company itself. Next, we searched Factiva, with the names of the company and the company's managers as key words to ensure that all relevant press articles were captured. Our sample consists of 742 articles covering the 40 discrete companies and their frauds. Table 1 lists the companies used in the study. Each press article was analyzed to allocate relevant portions of its text to one or more of the three components of the EG (deficient performance, deficient standards, and unreasonable expectations).

Inter-researcher reliability was evaluated by having two members of the research team independently analyze the same set of press articles for a random sample of 10 of the frauds and comparing how the two researchers extracted the relevant pieces of information from the articles and how they allocated them to the different components of the EG. The reliability check revealed a relatively high 95 % agreement between the researchers with all differences successfully reconciled by the coders.

Our overarching research question examines whether the difference between public expectations and the auditing profession's perspective on the auditor's responsibility to detect fraud is influenced by media bias. Press articles related to the studied scandals have been analyzed by the authors on the basis of Porter's (1993) model, dividing the elements of analysis into three categories: (1) deficient performance (audit failure), (2) deficient standards, and (3) unreasonable expectations.

Table 1 List of companies studied and year of scandal

#	Companies
1.	Adelphia Communications (2002)
2.	AOL (2002)
3.	Bristol-Myers Squibb (2002)
4.	Cendant (1998)
5.	Computer Associates (2002)
6.	CMS Energy (2002)
7.	Cornell Companies (2002)
8.	Datek Online (1998)
9.	Dell (2006)
10.	Dollar General (2002)
11.	Duke Energy (2002)
12.	Dynegy (2002)
13.	El Paso Corporation (2002)
14.	Enron (2001)
15.	Global Crossing (2002)
16.	Groupon (2011)
17.	Halliburton (2002)
18.	Harken Energy (2002)
19.	HealthSouth (2002)
20.	Homestore.com (2002)
21.	HPL Technologies (2002)
22.	Im Clone Systems (2002)
23.	Kmart (2002)
24.	Le-Nature (2006)
25.	Lucent (2004)
26.	Merck (2002)
27.	MicroStrategy (2000)
28.	Network Associates (2000)
29.	Peregrine Systems (2002)
30.	Phar-Mor (1992)
31.	Qwest (2002)
32.	Reliant Energy (2002)
33.	Rite Aid Corporation (2002)
34.	Sunbeam (1998)
35.	Tyco (2002)
36.	Ullico (2002)
37.	U.S. Foodservice (Royal Ahold) (2003)
38.	Waste Management (1999)
39.	WorldCom (2002)
40.	Xerox (2000)

Results

Deficient Performance

Audit failures include situations where elements specified by the auditing standards were not taken into consideration during the fraud likelihood assessment (see Gendron and Spira 2009). The different cases of deficient performance are summarized in Table 2.

An analysis of press articles that reflect deficient performance reveals that they typically cast the problem in very general terms:

> "As the auditor for WorldCom and other telecom firms, Andersen has been accused in shareholder lawsuits of signing off on financial reports that didn't accurately reflect the current standings of the companies" (WorldCom) (Van and Alexander 2002).

Some discuss an alleged lack of independence:

> "At the heart of these audit failures lies a set of business relationships that are bedevilled by perverse

Footnote 11 continued
the continuous information from Reuters, Dow Jones, and the Associated Press (see http://www.dowjones.com/factiva/features.asp). As a research tool Factiva is equivalent to the Lexis-Nexis database.

Table 2 Deficient performance

Items	Companies involved (anecdotal evidence)
Audit failure	Cendant, Enron, Halliburton, HPL Technologies, Merck, MicroStrategy, Peregrine Systems, Phar-Mor, Sunbeam, Tyco, Waste Management, Xerox
Auditing team too far away from the company	Cendant
Independence	Enron, Freddie Mac, MicroStrategy, Waste Management
Encouragement, approval or knowledge of accounting practices	Halliburton, Merck, Peregrine Systems, Tyco, Waste Management
Auditing standards not respected	HPL Technologies, Phar-Mor

incentives and conflicts of interest. In theory, a company's auditors are appointed independently by its shareholders, to whom they report. In practice, they are chosen by the company's bosses, to whom they all too often become beholden. Accounting firms frequently sell consulting services to their audit clients; external auditors may be hired to senior management positions or as internal auditors; it is far too easy to play on an individual audit partner's fear of losing a lucrative audit assignment. Against such a background, it is little wonder that the quality of the audit often suffers" (Enron) (Anonymous 2002b).

"A report filed in court by the plaintiffs said the audit firm 'consistently violated its responsibility' to maintain an appearance of independence. It cites e-mail evidence of a PwC auditor seeking a job at MicroStrategy while he was the senior manager on the team that reviewed the company's accounting. PwC also received money for reselling MicroStrategy software and recommending it to other clients. The accounting firm was working on setting up a business venture with its audit client, according to the plaintiff's report" (MicroStrategy) (Hilzenrath 2001).

"After Andersen signed off on the company's 1993 financial statements in February 1994, the suit said, Mr. (…) rewarded Andersen by granting a $3.7 million consulting contract to the firm's sister company, Andersen Consulting, which conducted an 11-month 'strategic review' of the company's business. The review, which one former Waste Management director described as a 'boondoggle,' was abandoned after 11 months" (Waste Management) (Weil and Schroeder 2002).

"Giving back to the community may be a noble calling. But when charitable work involves locking arms with an audit client, potential conflicts of interest can arise, some accounting specialists say. That is especially the case when an auditor heads up a charity whose largest private donations come from the philanthropy of the company he audits. A case in hand: the volunteerism of a former Arthur Andersen LLP partner (…) who for seven years was the top outside auditor responsible for Freddie Mac's financial-statement audits. At the same time he was the company's auditor, he also was a member of the board of trustees for one of Freddie Mac's favorite charities, which receives a large portion of its private donations, though a small portion of its overall revenue, from the philanthropy of Freddie Mac. Eventually, this auditor became the charity's chairman" (Freddie Mac) (Weil 2003).

In some cases (e.g., Peregrine Systems and Waste Management), the auditor is accused of encouraging improper accounting practices, or approving improper treatment (e.g., Halliburton and Merck), and, in other cases, is accused of concealing the fraud (e.g., Tyco).

"Peregrine attorneys allege in the suit that Andersen not only failed to provide proper procedures to protect Peregrine from inaccurate and unlawful accounting practices, 'They, in fact, promoted, crafted and encouraged Peregrine and its management to engage in accounting practices which Andersen (…) knew to be irregular and improper'." (Peregrine Systems) (Allen 2002).

"The SEC alleges in its suit that the former Waste Management officers, aided by Andersen, concocted 'a systemic scheme to falsify Waste Management's earnings and other measures of financial performance,' under which the company overstated its pretax profits by more than $1.7 billion from 1992 through 1997. (…) yesterday's complaint against the former Waste Management executives describes a firm [Andersen] whose partners purposefully conspired with company executives to come up with new, improper accounting techniques to cover up old ones—and being rewarded financially for their efforts" (Waste Management) (Weil and Schroeder 2002).

"Arthur Andersen LLP (…) was complicit in the fraud, and issued unqualified audit opinions, which were attached to each of Halliburton's annual SEC Reports on Form 10-K during the Class Period. Andersen did this, despite knowing of the accounting change and knowing, or being reckless as to, the fact that this change resulted in Halliburton's financial results being false and misleading" (Halliburton) (Anonymous 2002c).

"BDO Seidman auditors had certified that Le-Nature's financial statements were free from material error. 'There is a difference between being fooled and putting your head in the sand so you don't see things,' says Robert Loigman, a New York lawyer representing Le-Nature's investors who sued. 'A tour of the company's Latrobe, Pa., warehouse would have made clear Le-Nature's wasn't selling $300 million worth of bottled drinks a year as claimed, he says'" (Le-Nature) (Thompson and Bernstein 2009).

"Merck & Co. recorded more than $12 billion in revenue over the past three years by counting as income prescription-drug co-payments to retail pharmacies, which are not passed on to the pharmaceutical giant. (…) The accounting treatment was approved by Merck's outside auditors – first by Arthur Andersen LLP, and then by PricewaterhouseCoopers, which replaced Andersen on March 1" (Merck) (Brubaker 2002).

"Tyco International is also facing securities fraud allegations brought by shareholders who claim that the company, Kozlowski, ex-CFO (…), former corporate counsel (…), former directors (…), and auditor PricewaterhouseCoopers concealed accounting fraud and looting by executives to help the diversified manufacturing company boost its bottom line and fund acquisitions" (Tyco) (Anonymous 2004).

The press may express the belief that the auditor is not able to perform his duties because the audit team did not have the means or ability to perform a proper audit:

"Sources close to Cendant say loose financial oversight may have contributed to questionable accounting at CUC International. (…) A marginalized audit team – based hundreds of miles from the company's Stamford (Conn.) main office – wasn't focused on verifying accounting practices" (Cendant) (Barrett 1998).

There may be allegations that the auditor allegedly does not follow applicable auditing standards:

"Brought before U.S. District Court in Cleveland by Corporate Partners L.P., a limited partnership based in New York City that invests monies on behalf of pension funds and insurance companies, the lawsuit claims Coopers & Lybrand, Phar-Mor's former independent accounting firm, acted 'recklessly' in performing company audits. (…) [T]he litigation claims, 'Coopers did not perform its audits in accordance with generally accepted auditing standards'" (Phar-Mor) (Wood 1992).

"[W]hen 80 percent of revenues are coming from sales to just one company (in this case Canon, Inc.), you can certainly expect even the laziest auditor on the job to check a few of the sales receipts to satisfy himself that everything is on the up-and-up. And one thing an auditor just absolutely, positively does not want to muff, no matter what, is the cash line on the balance sheet - because checking it out is so simple: You see how much cash the company says it has, then compare the number with what the bank says the company has, and if the numbers square up, you're good to go. Unfortunately, that isn't what happened in the case of PricewaterhouseCoopers and HPL. As of March 31, the company said its balance sheet cash stood at $60.1 million. But if the company's officials are correct, balance sheet cash in real-life stood at only $37.5 million" (HPL technologies) (Byron 2002).

Most of the preceding media quotes illustrate some form of bias. In particular, the last quote on HPL reflects a strong bias: "even the laziest auditor." It shows that even the coverage of technical auditing and accounting issues is subject to bias. All of the above examples also provide support that auditing standards are not always properly taken into consideration during the fraud likelihood assessment, which can lead to cases of deficient performance.

Deficient Standards

The deficient standards component of the EG relates to deficiencies in the auditing standards. In our study of the 40 fraud cases, we find factors cited by the press but absent from the standards.[12] We identify two elements that exacerbate the EG: (1) definition of the concept of "rationalization," which is not developed in the auditing standards (SAS 99), and (2) differences between SAS 99 and ISA 240 (see Table 3). Table 3 provides a list of "risk factors" that differ between the U.S. and international auditing standards (SAS 99 and ISA 240) in either wording

[12] This is a per se indication of media bias—the media coverage is suggesting that the auditor should have done more than is required by the standards.

(some words are different but message is the same) or content (mentioned in one standard and not the other).

These items are summarized in Table 4 and discussed below.

Rationalization

Although the auditing standard SAS 99 (AICPA 2002) uses the terms "rationalize" or "rationalizations" 16 times, it does not provide any precise definition of the concept of "rationalizations," simply referring to "rationalizations to justify a fraudulent action" (§ 31). All of the examples in the "Attitudes/Rationalizations" section provided in the appendix of SAS 99 refer to "attitudes"; not a single one refers to "rationalizations." This suggests that part of the EG may stem from an insufficient articulation of an important component of fraud. Anand et al. (2005, p. 9) define rationalizations as "mental strategies that allow employees (and others around them) to view their corrupt acts as justified" and add that individuals use rationalizations to "neutralize their negative feelings or regrets about their behavior" (p. 10).

Ashforth and Anand (2003) identified several rationalization tactics, one of which is the "metaphor of the ledger," or "balancing the ledger," to borrow the expression of Anand et al. (2005, p. 13), where "good works (whether actual or anticipated) earn a credit that can be used to offset corrupt acts" (Ashforth and Anand 2003, p. 21). These authors cite donation of corporate funds to charity as an example of this rationalization technique. Despite the lack of the word "charity"[13] as an example for rationalization in SAS 99, from our press articles we identified one major argument put forward by managers to attenuate their guilt: the fact that their actions helped other people or organizations via their work with charitable causes, or the fact that the managers felt that they were acting for the good of the company.

> "The Sunday article mentioned an incident in which he bought dentures for an HSBC Arena elevator operator. Rigas said it was done quietly and not for publicity. 'He was a great guy and just looked terrible without any teeth. He didn't have any money.' I said, 'Why don't you go down to the dentist and send me the bill?' And he's always been so grateful. He's a bit of a character, and God bless him, I'm glad he's got his teeth.' Sources close to Rigas said he simply wants to help people in need. 'He hid some of this because he can't say no,' the source said" (Adelphia Communications) (Michel 2002).

> "Greenberg, whose net worth has been estimated at more than $3 billion, certainly didn't need more money. Indeed, he and the entities he controls have given away hundreds of millions of dollars to charities" (AIG) (Kadlec 2005).

> "Mr. Wang, 55, is involved in charities such as Make-A-Wish-Foundation and the National Centre for Missing and Exploited Children. He also established The Smile Train, a medical and technology center dedicated to helping children throughout the world with cleft lip and palates and other facial disfigurements" (Computer Associates) (Alphonso 2000).

> "In 1994, Mr. Turner donated $4 million to endow a program in 'moral leadership' at nearby Vanderbilt University in Nashville" (Dollar General) (Terhune and Lublin 2002).

> "He [Kenneth Lay] gave generously to local charities and was a patron of the arts" (Enron) (McNulty 2002).

> "In his native Alabama, the 50-year-old Selma native was known as a colorful entrepreneur who had spread his vast wealth with contributions to local charities" (HealthSouth) (Solomon et al. 2003).

> "Moores has donated 3 million of his Peregrine shares to charities from 1997 to 2001…That includes 1.1 million shares in 2000, when Peregrine stock was at its highest levels. Each year, he surpassed the Internal Revenue Service's tax deduction limit for the donations" (Peregrine Systems) (Peterson 2002).

> "Mr. Weingarten [Ebbers' attorney] said most of Mr. Ebbers's more than $100 million in charitable giving was anonymous. 'He wanted no self-aggrandizement,' he said. 'There are no plaques on the wall that say, 'This gym for disabled kids was built by Bernie Ebbers'" (WorldCom) (Searcey et al. 2005).

Another rationalization technique is suggested by articles reporting that managers believed that they acted for the good of the company.

> "Moores was one of Peregrine's main benefactors in the early years. He loaned the company at least $3 million, either on his own or through his investment vehicle, JMI Equity Fund, before Peregrine went public in 1997. Each loan carried the prime interest rate, which commercial banks charge on loans to their best customers. Moores also personally guaranteed Peregrine's term loan and line of credit with NationsBank of Texas in 1995" (Peregrine Systems) (Peterson 2002).

[13] We searched the text of SAS 99 for the word "charity" and found no mention of the term. There is one occurrence of the term "charitable," but it is not related to "rationalization."

Table 3 Differences between SAS 99 and ISA 240: risk factors relating to misstatements arising from fraudulent financial reporting

SAS 99	ISA 240
Incentives/pressures	
Information available indicates that management or the board of directors' personal financial situation is threatened by the entity's financial performance arising from the following:	Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:
There is excessive pressure on management or operating personnel to meet financial targets set up by the board of directors or management, including sales or profitability incentive goals.	There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.
Opportunities	
–	Use of business intermediaries for which there appears to be no clear business justification.
Ineffective board of directors or audit committee oversight over the financial reporting process and internal control.	Ineffective oversight by those charged with governance over the financial reporting process and internal control.
High turnover of senior management, legal counsel, or board members.	High turnover of senior management, legal counsel, or those charged with governance.
Ineffective accounting and information systems, including situations involving reportable conditions.	Ineffective accounting and information systems, including situations involving material weaknesses in internal control.
Attitudes/rationalizations	
Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or board members alleging fraud or violations of laws and regulations.	Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations.
Management failing to correct known reportable conditions on a timely basis.	Management failing to correct known material weaknesses in internal control on a timely basis.
–	Low morale among senior management.
–	The owner-manager makes no distinction between personal and business transactions.
–	Dispute between shareholders in a closely held entity.
Formal or informal restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with the board of directors or audit committee.	Formal or informal restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.

Above are differences between SAS 99 and ISA 240 (revised) in risk factors relating to misstatements arising from fraudulent financial reporting. There are two types of difference between the two standards: wording differences: "board of directors or audit committee" (SAS 99) vs. "those charged with governance" (ISA 240); "reportable conditions" (SAS 99) vs. "material weaknesses in internal control" (ISA 240) and content differences: areas covered by ISA 240 but not by SAS 99

Table 4 Deficient standards

Items	Companies involved (anecdotal evidence)
Panel A—rationalizations	
Charitable causes	Adelphia Communications, AIG, Computer Associates, Dollar General, Enron, HealthSouth, Peregrine Systems, WorldCom
Action for the good of the company	Peregrine Systems
Panel B—SAS 99—ISA 240 difference	
Personal enrichment (The owner-manager makes no distinction between personal and business transactions)	Adelphia Communications, Cendant, Global Crossing, Kmart, Peregrine Systems, Phar-Mor, Tyco

SAS 99—ISA 240 Difference

Although the EG exists both in the U.S. and internationally, differences in standards could result in varying levels of EG across auditing regimes. For example, using SAS 99 as a benchmark, we find a difference between SAS 99 and ISA 240, mainly in the issue where "the owner-manager makes no distinction between personal and business transactions." This situation, taken from ISA 240, is not covered in SAS 99. As auditor follows different standards in different countries, this discrepancy could create an EG due to the insufficient coverage of SAS 99 in comparison with ISA 240. Interestingly, we found several instances of personal expenses financed by corporate resources.

"In a series of government filings, Adelphia has acknowledged that for years after the company went public, the Rigas family used company cash and assets for the family's private business ventures, often without seeking approval from the company's board of directors or informing stockholders" (Adelphia Communications) (Caruso 2002).

"During a three-month slide toward bankruptcy, Adelphia revealed that the Rigas family allegedly used company cash or assets to help buy and run the Buffalo Sabres hockey team, expand the family's cable holdings, acquire timberland and invest in a golf course" (Adelphia Communications) (Anonymous 2002a).

"In all the hoopla over questions about former Cendant Corp. Chairman Walter A. Forbes's travel expenses, it's easy to lose sight of one telling detail: Cendant officials can find only a limited number of Forbes's expense reports and so can't verify how a substantial amount of those funds were spent. Forbes, who resigned on July 28 as investor anger rose over the company's accounting scandal, is now under fire for more than $1 million in expenses for which he was reimbursed" (Cendant) (Barrett 1998).

"What's inarguable…is that billions of dollars flowed out of this company and into the pockets of insiders. Gary Winnick and his cronies are arguably the biggest group of greedheads in an era of fabled excess.…[H]e treated Global Crossing from the get-go as his personal cash cow, earning exorbitant fees from consulting and real estate deals between Global Crossing and his own private investment company. In all, Winnick cashed in $735 million of stock over four years–including $135 million Global Crossing issued to his private company–while receiving $10 million in salary and bonuses and other payments to the holding company" (Global Crossing) (Creswell and Prins 2002).

"In some cases, executives avoided paying for personal trips aboard company planes 'by loading aircraft with Kmart personnel who otherwise had no need to travel'…One former executive ordered $850 million in merchandise for stores without authorization, which (…) 'substantially contributed to Kmart's liquidity crisis in the fall of 2001.' (…) Executives also took out $24 million in loans and spent $12 million for new jets as Kmart's finances wobbled" (Kmart) (Hays 2003).

"Mr. Podlucky diverted nearly $11 million from the company to build his Ligonier residence. The 24,000-square-foot stone castle is listed on the Howard Hanna website for $2.5 million and includes six bedrooms, seven carved limestone fireplaces and 13 bathrooms – five full, eight half. He spent $16 million on diamond-encrusted watches, 18-carat gold necklaces, jeweled rings, mounted and unmounted gems, Kashmir sapphires, gold, silver and platinum, according to the indictments against him" (Le-Nature) (Lord 2011).

"Public reports filed by Peregrine Systems while Bill Richardson was a director showed the company was headed toward possible failure at a time it spent millions of dollars on bonuses and golf-club memberships for executives" (Peregrine Systems) (Cole 2002).

"Monus, it alleged, had stolen about $10 million of corporate funds to prop up his struggling basketball league" (Abramowitz 1992). "As the league's general partner, Monus controlled at least 60 % of each team. That meant he was on the hook for most of the league's expenses–and losses. Whenever the teams needed cash, the owners say they called Phar-Mor CFO Finn, or a contact at Phar-Mor's small-business division" (Phar-Mor) (Schroeder et al. 1992).

"Once among the most lauded figures in Corporate America, Mr. Kozlowski in particular became a tabloid emblem of executive greed when it was disclosed that some of the disputed funds were used to buy lavish Manhattan apartments, expensive paintings, jewelry and, most infamously, a $6000 shower curtain" (Tyco) (Lin 2005; see also Jennings 2006, pp. 2–3).

Collectively, these examples related to the aforementioned difference between SAS 99 and ISA 240 and illustrate that in order to potentially attenuate the EG, auditor must actively examine whether managers are using their firms as their own personal "piggy bank." Some of these quotes are also blatant examples of bias: "greedheads," "fabled excess," "personal cash cow" (Global Crossing), and "tabloid emblem of executive greed" (Tyco). Even when covering more or less "objective" facts of the fraud, a media bias is strongly evident.

Unreasonable Expectations

Unreasonable expectations components are those cited in the press but not in the auditing standards (e.g., personality traits, lifestyle, etc.). A pervasive sensationalist media bias creates an emphasis on managers' behavior and lifestyles in the press accounts of many frauds. This is thought both to reflect and shape news consumers' demands for information that casts fraud perpetrators, as well as their auditors, in a negative light. These components document that the EG exists and which factors cause it. They correspond to the reasonableness gap and are displayed in Table 5.

The first category of explanations not found in the auditing standards but present in press coverage relates to a manager's high living standards, sometimes linked to a passion for sports. Examples of Tyco's CEO Dennis Kozlowski (the $6000 shower curtain) and Phar-Mor's CEO Mickey Monus (basketball league) have been provided in the section above. These are examples of unreasonable expectations in that obviously not every CEO who has a high living standard is going to commit fraud.

Several managers of the sample firms also received glowing praise and admiration from the press: Cal Turner, for instance, Dollar General's CEO, was considered a "marketing genius" prior to the scandals (Terhune and Lublin 2002). Michael Dell, chairman of Dell Inc., received the 2007 Digital Patriot Award for his lifelong contributions to furthering technological innovation and advancing the consumer electronics industry (Anonymous 2006). It appears that the managers believed in their own image, as reflected in the press, and would do almost anything to keep it favorable. However, it should be noted that this may have been true prior to discovery of the frauds. When the media built up these executives' reputations to very high levels, their subsequent falls from grace were even more sensational. In other words, press bias contributed both to building and tearing down the executives' reputations.

This positive image can explain the influence some the CEOs have exerted over their close colleagues (e.g., the CFO):

> "Said to be cooperating with authorities is [the] former Phar-Mor chief financial officer, who the company claims was Monus' right-hand man in carrying out the swindle. [his] attorney, (…), depicts [him] as a victim of blind faith. 'Monus has been his god,' he told the Wall Street Journal" (Phar-Mor) (Wood 1993).

Finally, press coverage also highlights personality traits in the CEOs involved in the cases studied. Network Associates' CEO is a good illustrative example of tyrannical behavior:

> "During the seven years he headed Network Associates Inc., Bill Larson approached the software business as if it were war. He marshaled his executives and probed them for weakness. He demanded heroic results on brutal deadlines and berated those who fell short. 'Drive fast, take chances,' he urged; a successful company was no place for Boy Scouts" (Ackerman and Kang 2001).

In the grand jury indictment, Martin Grass (Rite Aid Corporation) "emerged as an arrogant bully, pressuring underlings to endorse phony documents and bragging that cover-ups would never be discovered" (Ahrens 2002).

The following excerpt refers to Global Crossing CEO's personality:

> "Indeed, Winnick had become de facto royalty himself. 'Right before I left home, I had a call from the President of the United States to talk about something,' Winnick told a reporter. 'Yesterday, I get a call from Buckingham Palace because one of the people there wanted me.' (…) 'Winnick is bright, aggressive and has a huge ego,' said one veteran L.A. financier who has known Winnick for years. 'When you give somebody with those personality traits access to a lot of capital, this is what happens'" (Stremfel and Palazzo 2002).

The negative aspects of a strong personality are also evident in HealthSouth's CEO.

> "Scrushy also dealt harshly with his critics. He dismissed analysts who disappointed him, threaten to cut off access to reporters who wrote stories he didn't like and spent time and energy going after those who insulted him" (Tomberlin 2003).

Further, Sunbeam's CEO was severely criticized by the press for his arrogance, as shown in the following excerpt:

> "Much of the criticism, understandably enough, has been directed at his personality. Mr. Dunlap is mean, ill-tempered and arrogant - perhaps the nicest thing one can say about him is that his hostility is sincere. For those who want nice guys to finish first, Mr. Dunlap's downfall is nothing but good news" (Anonymous 1998).

Finally, greed is often mentioned by the press, as in the following example.

> "For Lefkofsky, it seems, the international expansion was simply a 'land grab.' And now, sources speaking to The Verge say he's keen on expanding the business yet again.' To him, greed is good. Money is what matters. He will cross the line to get more,' said a former Groupon executive. 'His reputation, Groupon's legacy, do not matter'" (Groupon) (Stafford 2013).

Thus, it appears that many executives who were involved in fraud did exhibit arrogant and highly

Table 5 Unreasonable expectations

Categories	Items	Companies involved	Anecdotal evidence from the press
Living standard	To maintain a high living standard	Adelphia Communications	Money used to buy stock and luxury condominiums in Mexico, Colorado and New York City, to construct a golf course of $12.8 million, and to purchase timber rights to land in Pennsylvania
		Cendant	Payment of living expenses (planes, golf-club membership, etc.)
		Computer Associates	Acquisition of expensive cars (Ferrari Maranello, Land Rover) and holiday homes
		Datek Online	The CEO, had a multimillion-dollar mansion on the Jersey Shore, often commuted to work by helicopter and liked to fly to Florida in his private Gulfstream jet
		HealthSouth	Acquisition of a $10.9 million house in Palm Beach, as well as a yacht and several planes
		Im Clone Systems	The CEO had a $20 million art collection, two houses in Long Island
		Le-Nature	The CEO diverted nearly $11 million from the company to build his Ligonier residence. The 24,000-square-foot stone castle is listed on the Howard Hanna website for $2.5 million and includes six bedrooms, seven carved limestone fireplaces, and 13 bathrooms—five full, eight half. He spent $16 million on diamond-encrusted watches, 18-carat gold necklaces, jeweled rings, mounted and unmounted gems, Kashmir sapphires, gold, silver, and platinum, according to the indictments against him
		Phar-Mor	Acquisition of a one-million dollar home, flying in private jet, traveling by white limousine, etc
		Rite Aid Corporation	The CEO was commuting by personal helicopter
		Tyco	Luxury apartments, yachts, jewelery, parties, etc
	Sometimes linked to a passion for sports	Harken Energy	To pay off the loans a director had solicited in order to buy part-ownership of the Texas Rangers Baseball Team. This enabled him to become the leading spokesman and salesman of the Team
		Phar-Mor	The CEO used the company's funds to cover the debts of one of his sports passions: the World Basketball League
		Qwest	Financing Chairman's burgeoning sports and entertainment empire
	Greed	Global Crossing	"The Emperor Of Greed." With the help of his bankers, the CEO treated Global Crossing as his personal cash cow—until the company went bankrupt
		Groupon	For the co-founder, it appears, the international expansion was simply a "land grab." And now, sources say he is keen on expanding the business yet again. "To him, greed is good. Money is what matters. He will cross the line to get more," said a former Groupon executive. "His reputation, Groupon's legacy, do not matter"
		Halliburton	The Chairman and CEO made $40 million from selling his stock options, shortly before Halliburton's stock price began to slump
		Homestore.com	The CEO and other executives sold their Homestore shares before the stock dropped in value, knowing it would drop soon because they had deceived investors about the true financial state of the Company. As the bulk of their wealth was invested in their Company's stock, they sold their shares so as to preserve their wealth and even enrich themselves
		Tyco	Manhattan apartments, expensive paintings, jewelry and, "most infamously," a $6000 shower curtain
		Ullico	The aim of Ullico's board members was to reap big profits, buying the Company's shares at $53.94 per share and knowing that they would be able to sell it 2 weeks later at $146 per share
		WorldCom	The CEO would personally suffer from a decline in WorldCom's share price as most of his wealth was tied up in WorldCom stock. The prospect of financial ruin was one of the reasons why he decided to engage in a massive fraud. He wanted to maintain the Company's share price so as to preserve his wealth

Table 5 continued

Categories	Items	Companies involved	Anecdotal evidence from the press
Reputation	Reputation at stake (company's success = personal success)	Duke Energy	Duke Energy may have encouraged its traders to engage in round-trip trades and to manipulate the Company's books and records, telling them it was good for the Company (as it boosted trading volumes and earnings) and at the same time good for the employees themselves as it was a means to get richer
		Network Associates	Network Associates executives had to meet the quarterly revenue goals that had been formulated. Otherwise they would have been discredited and fired by their boss who asked them to achieve heroic results on brutal deadlines. Since they found it difficult to meet these targets, they engaged in a fraudulent scheme to inflate the Company's revenue
		Qwest	The CEO was becoming so ambitious that he predicted that Qwest would consistently achieve double-digit revenue and earnings growth
		U.S. Foodservice	The CEO is the one who had built the Ahold's Empire and he wanted this empire to extend everyday more. So as to conquer the world—and even compete with Wal Mart—he launched a binge of mergers. But he was blind to the harmful effect of these mergers: the increasing debts. So much so that when he realized it he wanted to hide it, because his reputation was at stake
		WorldCom	The CEO set financial performance targets that he promised to investors and analysts he would meet. As he realized these targets could not be met by legitimate means, he resorted to fraud so as to preserve his image of competent businessman and so as not to lose face
Influence	Influence of the managers	Bristol-Myers Squibb	Bristol allegedly promoted a corporate culture of "making the numbers," in which hitting or surpassing financial targets was considered mandatory
	Influence of the CEO	Enron	One can observe that many people inside and outside the Enron admire the CEO for his rise from a modest preacher family to a "Washington-insider" and CEO of a billion-dollar company. In America, individualism is regarded as the predominant workplace culture and the CEO's influence was therefore significant. In essence Lay embodies the capitalist dream in the U.S. in particular
		Phar-Mor	The CEO fascinated his co-executives. He was the mastermind of the fraudulent scheme. His associate, that orchestrated the fraud with him, even said that it was "his god"
Prize	Prize received or other recognition/praise	Computer Associates	Awards for being one of the best-managed in the country
		Bristol-Myers Squibb	Youngest chief executive
		Cornell Companies	Programs consistently awarded the title of "Program of the Year" in Pennsylvania
		Dell	Digital Patriot Award, Lifelong contributions to furthering technological innovation and advancing the consumer electronics industry
		Dollar General	Marketing genius
		Enron	Financial genius (CFO)
		HPL Technologies	Admired head of a fast-growing company
		HealthSouth	Highest-paid CEO
		El Paso Corp.	Among the highest-paid CEOs in the U.S.
		Sunbeam	Worldwide recognition
		U.S. Foodservice—Ahold	Mass market retailer of the year
		WorldCom	Financial wizard (CFO)

Table 5 continued

Categories	Items	Companies involved	Anecdotal evidence from the press
Personality	Tyrannical/autocratic	HealthSouth	The CEO was terrorizing his colleagues and employees. He exerted pressure on them and had created a sophisticated electronic surveillance system to prevent senior officials from talking
		Network Associates	Network Associates' CEO was bullying his employees, giving them unreachable targets to meet and berating them if they failed. He liked to remind managers that "suicide was sometimes an appropriate response to failure." So Network Associates executives were terrified and as the targets settled by the CEO were unreachable, they had to commit fraud so as not to suffer from the consequences of their failure
		Rite Aid Corporation	The CEO was bullying his employees and partners: he was pressuring them to commit fraud, telling them that the fraud would never be discovered. He even threatened Rite Aid's audit firm to retaliate if the Company had to suffer as a result of the audit
		Sunbeam	For those who have not heard the screams, the CEO spent his brief tenure at Sunbeam executing his patented two-pronged strategy: he fired half the workforce, and then berated the other half. The delight he took in his work, combined with a pair of bloodcurdling nicknames—"Chainsaw Al" and "Rambo in pinstripes"—have propelled him into the ranks of the rich and infamous
		WorldCom	Testimony sketched a picture of an autocratic boss who nevertheless had a soft spot for charity. Portrayed by his lawyers as disengaged from financial details, the founder of WorldCom was described by others as near-obsessive about such minutiae such as how much employees' coffee cost the company
	Narcissistic	AOL	The Chairman was a visionary. Besides being a business genius, he was a narcissist. In the end he alienated many of the people he needed as allies at AOL Time Warner and was shoved out the door
		Phar-Mor	Encouraged hero worship of executives.
	Personal ambition	Homestore.com	The CEO embodied his Company. The Company's success was his success. They were almost one and the same. He wanted to build an empire and he could not tolerate failure. So he did everything—even engaging in deceptive techniques—to prevent Homestore to sink and therefore to prevent his failure
		Qwest	The CEO wanted to build his own empire. He wanted to create the most technologically advanced communications company.
		Reliant Energy	Reliant Resources' executives and employees wanted to be known as big energy marketers and traders
		Waste Management	Waste Management's executives had set earnings targets and therefore they had to meet these targets. Otherwise they would probably lose their jobs under the pressure of shareholders
	Ambitions for the firm	Dynegy	Dynegy vision: striving to be a leading global energy company respected for the manner in which it delivers value to stockholders
		Global Crossing	Sustainability of the firm: the business was not going well anymore
	Alcoholic	MicroStrategy	The CEO began to drink, according to friends, who had always known him as a teetotaler. Alcohol had carried a strong stigma in the CEO's home when he was growing up. His maternal grandfather was an alcoholic
	Ego	Enron	The Chairman/CEO was a leader who had an extremely high self-esteem. He felt that he was a great and fearless leader responsible for "greatness" that was Enron
		Global Crossing	"The Chairman is bright, aggressive and has a huge ego," said one veteran L.A. financier who has known him for years. "When you give somebody with those personality traits access to a lot of capital, this is what happens"
		MicroStrategy	The CEO was always impressed by wealth, not so much for what the money could buy—although that was enviable too—but for the power, credibility, and status that came with it

Table 5 continued

Categories	Items	Companies involved	Anecdotal evidence from the press
		Le-Nature	The CEO showed disdain for those over whom he had power. On business trips, he stayed in resorts while subordinates holed up in cheap hotels. An employee was assigned to daily remove his shoes, shine them, put them back on his feet and pull up his sock. "This defendant is a man who will stop at nothing, a man who answers to nothing except his own ego"
		Sunbeam	By the time the CEO joined Sunbeam, his ego had become his biggest enemy. So confident was he of turning Sunbeam around that he boasted to Wall Street analysts he would produce 20 % annual gains in profits and sales in an industry growing by barely 3 %

aggressive personalities. The above quotes refer to blatant examples of bias.[14] These preceding examples of media bias can be interpreted as designed to influence readers' attitudes toward the executives: in short, these "evil" frauds were perpetrated by these "evil" executives.

However, the question arises as to whether it is unreasonable for the public to expect auditor to be able to discriminate between an aggressive personality of a CEO that may be crucial for the success of a company and an aggressive personality that could lead to excessive risk taking that may also lead to fraud.

Discussion

Based on our decomposition of the EG into matters of deficient performance, deficient standards, and unreasonable expectations, we believe that some reduction of the EG is possible but that it will likely persist primarily because of media bias even if changes are made by the auditing profession. The media citations we provide to illustrate all three elements of the EG contain examples of blatant media bias. In particular, the descriptions of some of the executives and their actions border on character assassination. It is clear that the writers of these stories were attempting to portray the fraud perpetrators, and their companies, in a highly negative light. This media bias, evident in the press coverage of frauds we analyzed, works to reinforce news consumers' attitudes that auditors are responsible to detect fraud by treating executives' personalities and behavior as fraud red flags, despite (1) the inherent difficulty of translating what may be simply typical executive arrogance and high living into reliable signals of fraud and (2) the absence of guidance in the professional standards.

The deficient performance (audit failure) elements can be remedied with a more vigorous enforcement of existing auditing standards and improvement of technical and ethical levels among auditors in practice. The deficient standards elements suggest that the existing auditing standards also have some room for further improvement: on one hand, the concept of "rationalization" might be better developed and implemented in the future; on the other hand, a comparison between SAS 99 and ISA 240 reveals that the latter offers more extended coverage on some important fraud practices, like misappropriation of assets.

However, reducing the unreasonable expectations elements is more challenging, if not impossible. This element represents highly subjective factors that are beyond the sphere of control and expertise of an audit team, including the assessment of personality traits, lifestyle, etc., which are also factors that are highlighted by the press. Assessing these elements requires auditors to impose a value judgment on managers' behavior; yet, auditor is unlikely to be willing or able to shoulder this obligation. Moreover, the mainstream media generally reflects a sensationalist bias in its coverage of corporate frauds, emphasizing the flamboyant lifestyles of managers engaged in the frauds, and at least implying that the companies' auditor should have been aware of the frauds based on the managers' behavior. Accordingly, it is in the media's self-interest to emphasize the "evilness" of these fraudulent managers in order to meet readers' expectations and retain and expand readership. As a result, because of the inherent bias of the media, the EG will likely continue to persist regardless of actions taken by the profession.

The analysis of press coverage yielded the interesting finding that it is very common for the press articles to discuss managers' personality traits in addition to the frauds and the fraud investigations. This suggests several insights.

First, prior research finds that the public's view consists of the beliefs, attitudes, and opinions that people and/or a society have towards a general issue, based on values and

[14] E.g., "approached the software business as if it were war," "heroic result," "brutal deadlines," "was no place for Boy Scouts" (Network Associates); "arrogant bully," "bragging that cover-ups would never be discovered" (Rite Aid Corporation); "had become de facto royalty himself" (Global Crossing); "perhaps the nicest thing one can say about him is that his hostility is sincere," "Mr. Dunlap's downfall is nothing but good news" (Sunbeam); "the international expansion was simply a 'land grab'" (Groupon).

broad principles (Palmer 1938). Feldman (1988) validates the role of three core beliefs—support for equality of opportunity, economic individualism, and the free enterprise system—in structuring public opinion in the United States.

> "Economic individualism, the belief that people should get ahead on their own through hard work, is a core element in accounts of American values and beliefs. Some of the earliest European settlers in the New World brought with them a commitment to the work ethic already entrenched in industrializing Britain (…). Originally an outgrowth of ascetic Protestantism, the work ethic was refashioned in industrializing America into a powerful secular religion" (Feldman 1988, p. 419).

In this context, it is not surprising that the public expects that the company executives serve as role models with higher standards of the work ethic and so it is extremely unacceptable if these executives cheat.

> "The companion belief to the work ethic is equality of opportunity. The United States was the first nation to break with the aristocratic tradition and acknowledge that formal equality is a right of all people, regardless of social status (…). In their pure form, economic individualism and equality do not easily coexist. In order to minimize the potential conflict, Americans have interpreted equality as formal or political equality rather than equality of results. As Potter (1954, p. 92) has noted, 'equality came to mean, in a major sense, parity in competition. Its value was as a means to advancement rather than as an asset in itself'" (Feldman 1988, p. 419).

Given these expectations, it is understandable that the U.S. public is resentful of the cheating behaviors of these company executives, who occupy privileged position and who are expected to promote the equality of opportunity instead of taking undue advantage of these present opportunities.

> "As a system, Americans have always given strong support to the *free enterprise system* (…). The free enterprise system can be seen as the economic side of the individualistic social system, and support for the free enterprise system has typically been accompanied by a distrust of big government (…). Moreover, evidence suggests that popular distrust of big business is directed at specific institutions of big business rather than toward the system of free enterprise" (Feldman 1988, p. 419).

Most of these well-exposed corporate frauds happened in large corporations. This has reinforced distrust of big business by the media and the public, and created a perception that these organizations are actually curbing free enterprise (Feldman 1988). The insight from our research is that the media influences the public's view, which is based on *general* values related to corporate frauds, while auditor is working on the *technical* aspects of these cases. Reconciliation of the two positions is unlikely.

Second, the press plays an important role in reducing the information asymmetries to some degree by making companies' activities (e.g., board meetings, accounting decisions, etc.) understandable by the public (Ecker-Ehrhardt 2010). Besides the technical and legal aspects of corporate frauds, press articles often provide some journalistic investigation on the personal traits of these executives involved in these fraud cases. The discussion of personal traits makes the stories more compelling, more convincing, and also more understandable for the public (Graber 1972). These added accusations are in line with the public's fundamental beliefs and may serve to create a public perception that cheating executives must have some unique personal traits common to bad persons. This describes the mechanism by which biased news coverage both creates and reflects the expectations (biases) of news consumers. For auditor, this is exacerbated by a hindsight bias (Fischhoff 1975) implying that the public—with knowledge of the fraudulent outcome—may believe that auditor should have identified these characteristics ex ante and detected the fraud accordingly.

Third, the public pays significant attention to the managers' personality traits because the press oversells these traits to create a justification for the fraud. Indeed, the press has more influence on the public's view when it reports negative news than positive news (Akerlof et al. 2000). For instance, in their study on the impact of U.S. popular but extreme right wing political talk radio (Rush Limbaugh in the mid-1990s), Barker and Knight (2000, p. 168) reveal that "Limbaugh appears to have much less success mobilizing support than in mobilizing opposition." In other words, the media influences the public's perception of the manager and the reputation of the firm especially when negative events such as a fraud occur (Reuber and Fischer 2010; McCarthy and Dolfsma 2014).

Fourth, sensationalism in the media is a phenomenon with a long history (Davis and McLeod 2003). Kleemans and Hendriks Vettehen (2009) recall that, in the past decades, sensationalism gained substantial attention in communication research. They provide a literature review on sensationalism in television news.

Fifth, unreasonable expectations components also provide evidence of the existence of an EG in which factors are documented in the press and absent in auditing standards. The press has a bias to focus on managers' personality traits when describing corporate fraud, which in turn both reflects, and causes, a public focus on this aspect (Davison 1983). The public is likely to shift in the direction of believing that the personal traits are causal *and observable* elements of the fraud, and therefore forge an expectation that these aspects will be incorporated into the auditor's work. "Perceptions of public opinion, not only the actual distribution of opinion in the population, have long been considered an essential part of public opinion dynamics: political behavior is shaped not only by what people think, but also by what they perceive that others think" (Cohen et al. 2008, p. 340).

Sixth, as mentioned earlier, the press at times attempts to serve its readership by "dumbing down" the information content of news. An anecdotal example of such "dumbing down" is press coverage of the defense strategy taken by HealthSouth CEO Richard Scrushy's attorney in his fraud trial. The attorney, James Parkman, emphasized the immoral behavior of former HealthSouth CFO Aaron Beam (Gates 2005) in a theatrical cross-examination in order to take the focus off of Scrushy. Beam, in his own book (Beam and Warner 2009, pp. 146–147), confirms that Parkman was extremely theatrical in order to make the jurors come around to his side.

Thus, our results are consistent with those of Porter et al. (2012b) who investigate the changes in the audit expectation–performance gap in New Zealand (between 1989 and 2008) and the United Kingdom (1999–2008) and who document that the reasonableness gap has actually widened (see also Porter et al. 2012a).

Limitations and Conclusion

Using and expanding upon the database employed by Cohen et al. (2010), the primary objective of this study is to examine, through an analysis of press coverage of documented fraud cases, which of the EG components show an apparent divergence between the public's expectations and what the auditing standards highlight, and ultimately to consider whether the EG can be reduced or eliminated. Our conclusion is that it may be reduced—through improving audit performance and standards—but that it cannot be eliminated due to the presence of unreasonable expectations in part caused by a media bias. Unreasonable expectations components are primarily concerned with the public perception that auditor should formulate value judgments on managers' behavior. The linkages between managers' personal behaviors and corporate fraud may be clear through hindsight, but are very hard to assess ex ante, due to their inherent subjectivity and lack of professional expertise in assessing personality traits on the part of auditors. The public's view, which is shaped in part by the media coverage, is based on general values related to corporate frauds, while auditor is working on the technical aspects of these cases. Reconciliation of the two positions appears unlikely, especially if we consider unreasonable expectations as an outcome of media bias and sensationalism. Thus, the expectations gap is not only unlikely to be closed, but may even widen if current press trends towards "infotainment" continue.

The ability to detect personality-driven fraudulent tendencies is a "soft skill" that is very hard to organize into the form of red flags despite its undisputed importance. It may be more formally recognized as part of the professional skepticism concept (Nelson 2009; Hurtt 2010). Nelson (2009) posits that professional skepticism will be operationalized by auditor judgments and decisions that are reflective of a heightened sense of the risks associated with the audit. Consequently, one way of reducing the unreasonable expectation gaps might be to train auditor to examine management's lifestyle as an important risk factor for fraud.

A regulatory approach to reducing this component of the EG might involve its integration into the internal control audit mandated by section 404 of the Sarbanes–Oxley Act (U.S. Congress 2002). This audit requires auditor to evaluate controls via a framework that lists management control philosophy as an important element of the control environment. In addition to controls, every audit could examine which aspects of management's personality could potentially compromise the organization's "tone at the top." Auditor must not only work more diligently on what can be objectively assessed (as evidenced by our deficient performance components), he must also take care to exercise healthy professional skepticism towards management's personality, which could spill over into the client's business affairs (Nelson 2009).

Like all studies, there are potential limitations that represent opportunities for future research. First, the red flags identified from the press and highlighted as "unreasonable expectations" will not always lead to corporate fraud. The majority of managers who have a high standard of living and have been identified as high-profile leaders will probably not engage in fraudulent acts. Future research could explore the tipping point at which such a lifestyle could lead to unethical behavior (Trompeter et al. 2013). For example, if the economy is in a recession, the client's management may be more likely to commit fraud in order to maintain their current lifestyle.

Second, we are aware that the politics of rulemaking oblige standard-setters to accommodate certain demands and proceed in an incremental way. Standard-setters clearly also realize the inherent difficulty (and occasional impossibility) of assessing the personality and ethics of corporate personnel. Unless dysfunctional personality and ethics are accompanied by corresponding behavior, there is a risk that these traits will go largely unnoticed and unaddressed. However, future research could examine how the threat of litigation may affect what the profession publicly claims to be the duties of the auditor.

A third limitation relates to the sensationalism phenomenon. Newspapers do shape people's worldviews, but news itself is managed, manufactured, and selectively produced. We must not underestimate newspapers' desire to glamorize fraud cases and report vivid stories filled with colorful motives and dramatic personalities. As noted by Core et al. (2008, p. 3), a skeptical view of the press can be expressed. Jensen (1979) argues that most of the demand for the press derives not from individuals' demands for information but "rather from their demands for *entertainment*" (p. 271). Concerning the supply side of the press, the press "has strong incentives to foster sensationalism rather than calm dispassionate recounting of facts" (p. 283).

For the sake of simplicity and consistency, we focused on the U.S. cases of alleged or acknowledged corporate frauds. But fraud is not of course confined to the U.S., and many countries have faced similar situations. It would be interesting to extend the scope of the study and include non-U.S. companies (e.g., Parmalat[15]—Italy, Shell[16]—U.K./Netherlands, Marionnaud[17]—France, etc.) to investigate the robustness of our results in different cultural and institutional contexts, especially where family-dominated firms are more common.

Despite the limitations, this study adds to the literature on the EG by documenting its existence in the general public, in part due to the influence of the media, in the most recent spate of corporate scandals in the late 1990s and the first decade of 2000s. We have also shown that subjective items such as personality traits appear to be at the forefront of the EG. Unless the auditor actively searches for these factors and exercise his professional judgment, the EG is unlikely to narrow. However, given the subjective nature of these items, and the significant influence of press bias in emphasizing managers' personal characteristics and behavior in coverage of fraud cases, it appears that some form of EG is likely to persist in the foreseeable future.

Acknowledgments The authors thank workshop participants at the University of Manchester, the 2011 annual congress of the French Accounting Association, the 2011 EIASM Workshop on Business Ethics, and the 2013 CAAA annual meeting for helpful comments as well as the comments of an anonymous reviewer, Markus Milne (the Editor), and Lori Holder-Webb. Cédric Lesage and Hervé Stolowy acknowledge the financial support of the HEC Foundation (Project F0802). They are members of the GREGHEC, CNRS Unit, UMR 2959. Yuan Ding acknowledges support from the CEIBS Research Funding. They also acknowledge Claire O'Hana for her able research assistance.

[15] Money was siphoned out of Parmalat's coffers and into loss-making travel businesses controlled by the founder's family.

[16] Overestimation of oil reserves.

[17] Underestimation of the accrual for gift certificates.

References

Abramowitz, M. (1992). A pillar's fall shakes Ohio town; Phar-Mor founder's troubles generate bafflement, worry. *The Washington Post*, (August 7), F01.

Ackerman, E., & Kang, C. (2001). Silicon valley software company sinks under its own ambition. *Knight Ridder Tribune Business News,* (Feb 15).

Ahrens, F. (2002). History of conflict for ex-rite aid chief; indictment paints picture of Grass as an arrogant bully. *The Washington Post*, (June 22), E1.

AICPA. (2002). *Statement on auditing standards (SAS) No. 99: Consideration of fraud in a financial statement audit.* American Institute of Certified Public Accountants.

Akerlof, G. A., Dickens, W. T., & Perry, G. L. (2000). Near-rational wage and price setting and the long-run Phillips curve. *Brookings Papers on Economic Activity, 2000*(1), 1–60.

Allen, M. (2002). Peregrine woes called 'disaster'. *San Diego Business Journal, 23*(30), 1.

Alphonso, C. (2000). A man of apparent contradictions software tycoon devoted to charities. *The Globe and Mail,* (August 8), B9.

Anand, V., Ashforth, B. E., & Joshi, M. (2005). Business as usual: The acceptance and perpetuation of corruption in organizations. *Academy of Management Executive, 19*(4), 9–23.

Andon, P., & Free, C. (2014). Media coverage of accounting: The NRL salary cap crisis. *Accounting, Auditing & Accountability Journal, 27*(1), 15–47.

Anonymous. (1991). Fraud and the auditor. *Accountancy, 107*(1170), 1.

Anonymous. (1997). SEC leaders discuss the value of independence. *Journal of Accountancy, 183*(2), 9.

Anonymous. (1998). Al Dunlap—exit bad guy. *The Economist*, Retrieved from http://www.economist.com/node/136843.

Anonymous. (2002a). Adelphia founder reports health woes. *AP Online,* (June 30).

Anonymous. (2002b). Enron and auditing—the lessons from Enron. *The Economist*, Retrieved from http://www.economist.com/node/976011/print.

Anonymous. (2002c). A legal watchdog group files suit against Halliburton and vice president Dick Cheney after Wolf Haldenstein Adler Freeman and Herz LLP commenced class action suit against Halliburton company and Arthur Andersen, LLP on behalf of Halliburton shareholders. *PR Newswire*, Retrieved from http://www.thefreelibrary.com/A+Legal+Watchdog+Group+Files+Suit+Against+Halliburton+and+Vice...-a088832185.

Anonymous. (2004). Suit against Kozlowski, Tyco subsidiary's board to continue. *Corporate Officers and Directors Liability Reporter*, *20* (December 27).

Anonymous. (2006). Michael Dell to receive CEA's digital patriots award at March 27 dinner. *Business Wire,* Retrieved Oct 17, 2006, from http://www.mobilitytechzone.com/news/2006/10/17/1987705.htm.

Arrington, C. E., Hillison, W. A., & Williams, P. F. (1983). The psychology of expectations gaps: Why is there so much dispute about auditor responsibility? *Accounting and Business Research, 13*(52), 243–250.

Ashforth, B. E., & Anand, V. (2003). The normalization of corruption in organizations. *Research in Organizational Behavior, 25*, 1–52.

Barker, D., & Knight, K. (2000). Political talk radio and public opinion. *Public Opinion Quarterly, 64*(2), 149–170.

Barrett, A. (1998). Cendant: Who's to blame? A loose accounting culture may lie at the core of the debacle. *Business Week, 70* Retrieved Aug 16, 1998, from http://www.businessweek.com/stories/1998-08-16/cendant-whos-to-blame.

Bazerman, M. H., Moore, D. A., Tetlock, P. E., & Tanlu, L. (2006). Reports of solving the conflicts of interest in auditing are highly exaggerated. *Academy of Management Review, 31*(1), 43–49.

Beam, A., & Warner, C. (2009). *HealthSouth: The wagon to disaster*. Fairhope: Wagon Publishing.

Benau, M. A. G., Humphrey, C., Moizer, P., & Turley, S. (1993). Auditing expectations and performance in Spain and Britain: A comparative analysis. *The International Journal of Accounting, 28*(4), 281–307.

Benediktsson, M. O. (2010). The deviant organization and the bad apple CEO: Ideology and accountability in media coverage of corporate scandals. *Social Forces, 88*(5), 2189–2216.

Brown, R. G. (1962). Changing audit objectives and techniques. *The Accounting Review, 37*(4), 696–703.

Brubaker, B. (2002). Merck's accounting questioned; co-payments were booked as revenue. *The Washington Post*, (July 9), E01.

Bushee, B. J., Core, J. E., Guay, W., & Hamm, S. J. W. (2010). The role of the business press as an information intermediary. *Journal of Accounting Research, 48*(1), 1–20.

Byron, C. (2002). Cooking with PwC—how does an auditor miss $25m in fake sales? *New York Post,* (July 29), 31.

Carpenter, B., & Dirsmith, M. (1993). Sampling and the abstraction of knowledge in the auditing profession: An extended institutional theory perspective. *Accounting, Organizations and Society, 18*(1), 41–63.

Caruso, D. B. (2002). For years, Rigas treated Adelphia like a family business. *Associated Press Newswires*, (May 25).

Castellano, J. G. (2002). Restoring public confidence. *Journal of Accountancy, 193*(4), 37–39.

Christensen-Szalanski, J. J. J., & William, C. F. (1991). The hindsight bias: A meta-analysis. *Organizational Behavior and Human Decision Processes, 48*(1), 147–168.

Clikeman, P. M. (2009). *Called to account—fourteen financial frauds that shaped the American accounting profession*. London: Routledge.

Cohen Commission. (1978). *Report of the commission on auditor reasonability's: Conclusions and recommendations.* American Institute of Certified Public Accountants.

Cohen, J., Ding, Y., Lesage, C., & Stolowy, H. (2010). Corporate fraud and managers' behavior: Evidence from the press. *Journal of Business Ethics, 95*(Supplement 2), 271–315.

Cohen, J., Tsfati, Y., & Sheafer, T. (2008). The influence of presumed media influence in politics: Do politicians' perceptions of media power matter? *Public Opinion Quarterly, 72*(2), 331–344.

Cole, T. J. (2002). Tenure at Peregrine haunts Richardson. *Albuquerque Journal,* (October 27), A1.

Core, J. E., Guay, W., & Larcker, D. F. (2008). The power of the pen and executive compensation. *Journal of Financial Economics, 88*(1), 1–25.

Creswell, J., & Prins, N. (2002). The emperor of greed; with the help of his bankers, Gary Winnick treated Global Crossing as his personal cash cow—until the company went bankrupt. *Fortune, 145*(June 24), 106.

Davis, H., & McLeod, S. L. (2003). Why humans value sensational news: An evolutionary perspective. *Evolution and Human Behavior, 24*(3), 208–216.

Davison, W. P. (1983). The third-person effect in communication. *Public Opinion Quarterly, 47*, 1–15.

Dennis, I. (2010). What do you expect? A reconfiguration of the audit expectations gap. *International Journal of Auditing, 14*(2), 130–146.

Dewing, I., & Russell, P. (2001). Bridging the expectations gap. *Accountancy, 128*(1295), 98.

Drake, M. S., Guest, N. M., & Twedt, B. J. (2014). The media and mispricing: The role of the business press in the pricing of accounting information. *The Accounting Review, 89*(5), 1673–1701.

Dyck, A., Morse, A., & Zingales, L. (2010). Who blows the whistle on corporate fraud? *Journal of Finance, 65*(6), 2213–2253.

Dyck, A., Volchkova, N., & Zingales, L. (2008). Corporate governance role of the media: Evidence from Russia. *Journal of Finance, 63*(3), 1093–1135.

Ecker-Ehrhardt, M. (2010). Aid organizations, governments and the media, the critical role of journalists in signaling authority recognition. In S. Koch-Baumgarten & K. Voltmer (Eds.), *Public policy and mass media: The interplay of mass communication and political decision making* (pp. 106–124). London: Routledge.

European Commission. (2010). *Green paper: Audit policy: Lessons from the crisis.*

Feldman, S. (1988). Structure and consistency in public opinion: The role of core beliefs and values. *American Journal of Political Science, 32*(2), 416–440.

Fischhoff, B. (1975). Hindsight does not equal foresight: The effect of outcome knowledge on judgement under uncertainty. *Journal of Experimental Psychology: Human Perception and Performance, 1*(3), 288–299.

Gans, J. S., & Leigh, A. (2012). How partisan is the press? Multiple measures of media slant. *Economic Record, 88*(280), 127–147.

Gates, V. (2005). Parkman hits at Beam's drinking, womanizing in Scrushy trial. *Birmingham Business Journal* (January 28), Available at http://www.bizjournals.com/birmingham/stories/2005/01/24/daily23.html?page=all.

Gendron, Y., & Spira, L. F. (2009). What went wrong? The downfall of Arthur Andersen and the construction of controllability boundaries surrounding financial auditing. *Contemporary Accounting Research, 26*(4), 987–1027.

Gentzkow, M., & Shapiro, J. M. (2006). Media bias and reputation. *Journal of Political Economy, 114*(2), 280–316.

Gentzkow, M., & Shapiro, J. M. (2010). What drives media slant? Evidence from U.S. Daily newspapers. *Econometrica, 78*(1), 35–71.

Goelzer, D. L. (2006). *Lessons from Enron: The importance of proper accounting oversight.* Speech on July 26, 2006 in Tokyo, Japan. Retrived from http://pcaobus.org/News/Speech/Pages/07262006_GoelzerTokyoAmericanCenter.aspx.

Graber, D. A. (1972). Personal qualities in presidential images: The contribution of the press. *Midwest Journal of Political Science, 16*(1), 46–76.

Groseclose, T., & Milyo, J. (2005). A measure of media bias. *Quarterly Journal of Economics, 120*(4), 1191–1237.

Gurun, U. G., & Butler, A. W. (2012). Don't believe the hype: Local media slant, local advertising, and firm value. *Journal of Finance, 67*(2), 561–598.

Guy, D. M., & Sullivan, J. D. (1988). The expectation gap auditing standards. *Journal of Accountancy, 165*(4), 36–46.

Hays, C. L. (2003). Kmart accuses former officials of misconduct. *The New York Times*, (January 25), 1.

Herdman, R. K., & Neary, R. D. (1988). Can the AICPA close the expectation gap with new standards? *Financial Executive, 4*(2), 9–12.

Hilzenrath, D. S. (2001). MicroStrategy auditor to settle investor suit; accounting giant to pay $55 million. *The Washington Post,* (May 9), A01.

Humphrey, C., Moizer, P., & Turley, S. (1992). The audit expectations gap—plus ca change, plus c'est la meme chose? *Critical Perspectives on Accounting, 3*(2), 137–161.

Humphrey, C., Moizer, P., & Turley, S. (1993). The audit expectations gap in Britain: An empirical investigation. *Accounting and Business Research, 23*(91A), 395–411.

Humphrey, C., Turley, S., & Moizer, P. (1991). *An empirical dimension to expectations. Accountancy, 108*(1178), 30.

Hurtt, R. K. (2010). Development of a scale to measure professional skepticism. *Auditing: A Journal of Practice & Theory, 29*(1), 149–171.

IFAC [International Federation of Accountants]. (2005). *International standard on auditing (ISA) 240: The auditor's responsibility to consider fraud in an audit of financial statements.* Handbook of International Auditing, Assurance, and Ethics Pronouncements.

IFAC [International Federation of Accountants]. (2009). *International standard on auditing (ISA) 240 revised: The auditor's responsibility to consider fraud in an audit of financial statements.* Handbook of International Auditing, Assurance, and Ethics Pronouncements, IFAC.

Jackson, J. (2005). Sensationalism in the newsroom: Its yellow beginnings, the nineteenth century legal transformation, and the current seizure of the American press. *Notre Dame Journal of Legal Ethics & Public Policy, 19*(2), 789–816.

Jennings, M. M. (2006). *The seven signs of ethical collapse: How to spot moral meltdowns in companies.. Before it's too late*. New York: St. Martin's Press.

Jensen, M. (1979). Toward a theory of the press. In K. Brunner (Ed.), *Economics and social institutions* (pp. 267–287). Dordrecht: Martinus Nijhoff Publishing Company.

Joe, J. R. (2003). Why press coverage of a client influences the audit opinion. *Journal of Accounting Research, 41*(1), 109–133.

Johnson, J. L., Ellstrand, A. E., Dalton, D. R., & Dalton, C. M. (2005). The influence of the financial press on stockholder wealth: The case of corporate governance. *Strategic Management Journal, 26*(5), 461–471.

Kadlec, D. (2005). Down…But not out - prosecutors are swarming around him, but Hank Greenberg is as focused as ever—and not giving an inch. How he rose so far and fell so fast. *Time (U.S. Edition),* (June 13), 50.

Kaplan, R. L. (1987). Accountants' liability and audit failures: When the umpire strikes out. *Journal of Accounting and Public Policy, 6*(1), 1–8.

Kleemans, M., & Hendriks Vettehen, P. G. J. (2009). Sensationalism in television news. In R. P. Konig, P. W. M. Nelissen, & F. J. M. Huysmans (Eds.), *Meaningful media: Communication research on the social construction of reality* (pp. 226–243). Nijmegen: Tandem Felix.

Kuhnen, C. M., & Niessen, A. (2012). Public opinion and executive compensation. *Management Science, 58*(7), 1249–2172.

Kuypers, J. A. (2002). *Press bias and politics: How the media frame controversial issues*. Westport: Praeger Publishers.

Levi, M. (2006). The media construction of financial white-collar crimes. *British Journal of Criminology, 46*, 1037–1057.

Liggio, C. (1974). The expectation gap: The accountant's Waterloo. *Journal of Contemporary Business, 3*(3), 27–44.

Lin, A. (2005). Former Tyco executives guilty on most counts; high-profile verdicts could bolster Morgenthau's re-election prospects; earlier Tyco acquittal; reputation enhanced. *New York Law Journal,* (June 20), 1.

Lippman, W. (1922). *Public opinion*. New York: Harcourt, Brace and Company.

Lord, R. (2011). Le-Nature's ringleader gets 20 years called largest case of financial fraud in region's history. *Pittsburg Post-Gazette,* (June 21), B-1.

Lott, J., & Hassett, K. (2014). Is newspaper coverage of economic events politically biased? *Public Choice, 160*(1/2), 65–108.

McCarthy, K. J., & Dolfsma, W. (2014). Neutral media? Evidence of media bias and its economic impact. *Review of Social Economy, 72*(1), 42–54.

McNulty, S. (2002). Patriarch's departure leaves mix of feelings. *Financial Times,* (January 25), 16.

Michel, L. (2002). Rigas confident of vindication. *Buffalo News,* (July 30), A1.

Miller, G. S. (2006). The press as a watchdog for accounting fraud. *Journal of Accounting Research, 44*(5), 1001–1033.

Nelson, M. W. (2009). A model and literature review of professional skepticism in auditing. *Auditing: A Journal of Practice & Theory, 28*(2), 1–34.

Palmer, P. A. (1938). Ferdinand Tönnies's theory of public opinion. *Public Opinion Quarterly, 2*(4), 584–595.

Parker, L. D. (1994). Professional accounting body ethics: In search of the private interest. *Accounting, Organizations and Society, 19*(6), 507–525.

Peterson, K. (2002). Peregrine probes test Moores' corporate character. *The San Diego Union-Tribune,* (July 28), 1, 2, 3.

Porter, B. (1993). An empirical study of the audit expectation-performance gap. *Accounting and Business Research, 24*(93), 49–68.

Porter, B., hÓgartaigh, C. Ó., & Baskerville, R. (2012a). Audit expectation-performance gap revisited: Evidence from New Zealand and the United Kingdom. Part 1: The gap in New Zealand and the United Kingdom in 2008. *International Journal of Auditing, 16*(2), 101–129.

Porter, B., hÓgartaigh, C. Ó., & Baskerville, R. (2012b). Audit expectation-performance gap revisited: Evidence from New Zealand and the United Kingdom. Part 2: Changes in the gap in New Zealand 1989–2008 and in the United Kingdom 1999–2008. *International Journal of Auditing, 16*(3), 215–247.

Potter, D. M. (1954). *People of plenty*. Chicago: University of Chicago Press.

Power, M. (1997). *The audit society: Rituals of verification*. Oxford: Oxford University Press.

Price, V., & Tewksbury, D. (1995). News values and public opinion: A theoretical account of media priming and framing. In G. Barnett & F. J. Boster (Eds.), *Progress in communication sciences* (pp. 173–212). Greenwich: Ablex Publishing Corp.

Qi, B., Yang, R., & Tian, G. (2014). Can media deter management from manipulating earnings? Evidence from China. *Review of Quantitative Finance and Accounting, 42*(3), 571–597.

Reckers, P. M. J., Jennings, M., Lowe, D. J., & Pany, K. (2007). Judges' attitudes toward the public accounting profession. *European Accounting Review, 16*(3), 625–645.

Reckers, P. M. J., & Schultz, J. J. J. (1993). The effects of fraud signals, evidence order, and group-assisted counsel on independent auditor judgment. *Behavioral Research in Accounting, 5*, 124–144.

Reuber, A., & Fischer, E. (2010). Organizations behaving badly: When are discreditable actions likely to damage organizational reputation? *Journal of Business Ethics, 93*(1), 39–50.

Schroeder, M., Schiller, Z., & Atchison, S. (1992). Top of the news: Investigations a scandal waiting to happen —- why did the alleged fraud at Phar-Mor go undetected for so long? *Business Week,* (August 24), 32.

Searcey, D., Young, S., & Scannell, K. (2005). Ebbers is sentenced to 25 years for $11 billion WorldCom fraud. *The Wall Street Journal,* (July 14), A1.

Sikka, P., Puxty, T., Willmott, H., & Cooper, C. (1992). *Eliminating the expectations gap?* Certified Research Report No. 28, Certified Institute of Chartered Accountants.

Sikka, P., Puxty, A., Willmott, H., & Cooper, C. (1998). The impossibility of eliminating the expectations gap: Some theory and evidence. *Critical Perspectives on Accounting, 9*(3), 299–330.

Singleton-Green, B. (1990). Auditors and the expectation gap. *Accountancy, 105*(1160), 62.

Solomon, D., Carrns, A., & Terhune, C. (2003). HealthSouth faked profits, SEC charges—a $1.4 billion overstatement cited as CEO is accused of ordering 'massive accounting fraud'. *The Wall Street Journal,* (March 20), C1.

Stafford, P. (2013). Best of the web: How greed has ruined Groupon. *SmartCompany*, Retrieved Mar 21, 2013, from http://www.smartcompany.com.au/technology/information-technology/30885-best-of-the-web-how-greed-has-ruined-groupon.html#.

Stremfel, M., & Palazzo, A. (2002). Rise and fall of global pipe dream. *Los Angeles Business Journal, 24*(February 18), 1.

Terhune, C., & Lublin, J. S. (2002). Unlike others, Dollar General issues a mea culpa—amid Enron, other scandals, discount retailer apologizes for its accounting problems. *The Wall Street Journal,* (January 17), B1.

Thompson, A. C., & Bernstein, J. (2009). Toothless watchdogs? Auditing the audit firms. *Dow Jones & Company*, Retrieved May 11, 2009, from http://online.barrons.com/news/articles/SB124183169766802819?tesla=y.

Thussu, D. K. (2007). *News as entertainment—the rise of global infotainment*. London: Sage Publications.

Tricker, R. I. (1982). Corporate accountability and the role of the audit function. In A. G. Hopwood, M. Bromwich, & J. Shaw (Eds.), *Auditing research: Issues and opportunities*. London: Pitman Books.

Trompeter, G. M., Carpenter, T. D., Desai, N., Jones, K. L., & Riley, R. A, Jr. (2013). A synthesis of fraud-related research. *Auditing: A Journal of Practice & Theory, 32*(Supplement 1), 287–321.

Tomberlin, M. (2003). Trappings of wealth. HealthSouth CEO may have wanted the good life a little too much. *The Star-Ledger,* (March 27), 57.

U.S. Congress. (2002). *Public company accounting reform and investor protection act (Sarbanes-Oxley act).*

United States General Accounting Office. (2002). *Financial statements restatements - trends, market impacts, regulatory responses, and remaining challenges.* GAO 03-138.

Van, J., & Alexander, D. (2002). WorldCom discloses $3.8 billion accounting scheme. *KRTBN Knight-Ridder Tribune Business News: Chicago Tribune*. Retrieved from http://articles.chicagotribune.com/2002-06-26/news/0206260350_1_worldcom-cfo-concern-that-important-information-accounting-problems.

Van Peursem, K. A., & Hauriasi, A. (1999). Auditors' reputation: An analysis of press coverage in New Zealand. *Accounting Forum, 23*(1), 93–108.

Warming-Rasmussen, B., & Jensen, L. (1998). Quality dimensions in external audit services—an external user perspective. *European Accounting Review, 7*(1), 65–82.

Weil, J. (2003). Freddie Mac's charity case—conflict-of-interest questions stem from ex-auditor's role at recipient of largesse. *The Wall Street Journal,* (July 21), C1.

Weil, J., & Schroeder, M. (2002). Waste Management suit by SEC zings Andersen. *The Wall Street Journal,* (March 27), C1.

Wood, A. (1992). Lawsuit tells how fraud worked. *Business Journal Of The Five-County Region,* (November 15), 3.

Wood, A. (1993). Monus confidant: Everyone knew everything. *Business Journal of the Five-County Region,* (August 15), 3.

Zhang, P. (2007). The impact of the public's expectations of auditors on audit quality and auditing standards compliance. *Contemporary Accounting Research, 24*(2), 631–654.

Zikmund, P. E. (2008). Reducing the expectation gap. *CPA Journal, 78*(6), 20–25.