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ORIGINAL PAPER

Boiling the Frog Slowly: The Immersion of C-Suite Financial Executives into Fraud

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Abstract

This study explores *how* financial executives retrospectively account for their crossing the line into financial statement fraud while acting within or reacting to a financialized corporate environment. We conduct our investigation through face-to-face interviews with 13 former C-suite financial executives who were involved in and indicted for major cases of accounting fraud. Five different themes of *accounts* emerged from the narratives, characterizing executives' fraud immersion as a meaning-making process by which the particulars of the proximal social context (the influence of social actors and contextual characteristics) and individual motivations collectively molded executives' vocabularies of fraud immersion. Our executives' narratives portray their fraud entanglement as typically occurring in small, incremental steps. Their accounts expand our understanding of the influence of socialization on executive-level financial fraud beyond the individualized focus of the fraud triangle model.

Keywords Financial statement fraud · Incrementalism · Slippery slope · Socialization

"Once you start on that slippery slope of evil, there is no going back for the vast majority of people." Phillip Zimbardo (Mechanic 2015).

Introduction

This research examines and interprets the retrospective narratives of former high-level corporate ('C-suite') financial executives who were indicted and convicted in major financial statement frauds.[1] In their accounts of *how* they 'crossed the line,'[2] these executives reflect upon, provide perspective, and attempt to assign meaning to their experiences in perpetrating financial statement fraud. Research across multiple disciplines, including criminology, organizational behavior, sociology, and social psychology has often used motivational accounts or "motive-talk" (Mills 1940), with a focus on rationalization (Ashforth and Anand 2003; Sykes and Matza 1957), to elucidate general and specific delinquency and criminal behaviors, inclusive of corporate wrongdoing (e.g., Maruna and Copes 2005). Our examination of the motivational accounts of executive-level fraudsters highlights the social dynamics that incubate and nurture financial misreporting.

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[1] Investopedia defines C-suite as "A widely-used slang term used to collectively refer to a corporation's most important senior executives." http://www.investopedia.com/terms/c/c-suite.asp#ixzz3rTzagDci.

[2] According to the Free Dictionary Definition, a person crosses the line when his/her behavior changes from being acceptable to being unacceptable (accessed at http://idioms.thefreedictionary.com/cross+the+line).

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These first-person narratives shed light on the cognition and contextualization of unethical conduct (Maruna and Copes 2005) as well as the underlying economic and political circumstances (Cooper et al. 2013; Morales et al. 2014). Contrary to much of the prior accounting fraud literature, often entrenched in the 'triangle model' (Wells 1997) with its focus on individuals' frail morality as the key "causal" explanation of deviant behavior (Morales et al. 2014), the accounts of our C-suite executives suggest that complex social processes rather than monetary payoffs underpin their decision to commit major financial statement fraud.

We rely on face-to-face interviews with open-ended questions directed at accessing empirical traces of discursive behavior (Denzin 1970; Kvale 1996; Gubrium and Holstein 2002) and use interpretative phenomenological analysis to conduct a detailed, nuanced analysis of the narrative transcripts of 13 C-suite fraudsters (Ahrens and Chapman 2006; Miles and Huberman 1994; Smith 2008; Smith and Osborn 2003). Our interviewees were all directly involved in issuing false financial statements in their positions as either Chief Financial Officer (CFO), Chief Accounting Officer (CAO), Controller, Director of Finance (DF), or Chief Operating Officer (COO). The average annual revenue of the companies in which our interviewees were employed was over eight billion dollars.[3]

From our cross-case analysis of executive accounts, we identify five types of processes underlying their immersion into fraud: (1) sensitivity to proximal social cues on the 'appropriate' reporting conduct (*Social Cues*); (2) conforming to or complying with social actors' decisions or requests (*Social Conformity/Compliance*); (3) identification with a core group (*Clan Culture Imperative*); (4) a deliberate decision driven by pro-organizational motives and the executive's desire to be consistent with prior actions (*Rational Choice*); and (5) a byproduct of fixing a problematic and complex accounting information system—an accidental wrongdoing (*Systems in Chaos*) (Palmer 2012; Palmer and Maher 2006, 2010). We do not propose that these accounts represent all possible paths that C-suite executives may take on journey into fraudulent financial reporting. However, they do convey our executive participants' reflective insights in attempting to give meaning to their involvement in fraud within the egis of a financialized corporate environment[4] and with emphasis upon the influence of other social actors, contexts, and individual motivations. In other words, our executives' immersion into accounting fraud did not happen in a vacuum but rather in a village, encompassing the interplay of micro-sociological factors—i.e., the link between individual motivations and immediate contextual characteristics (Berger 2011; Morales et al. 2014; Sutherland 1937).

Our analysis suggests that the paths our 13 financial executives took in "crossing the line" were typically influenced by the actions of proximal (e.g., peer executives, controllers from other business units, immediate superior, the CEO or CFO) or distal (former public accounting firm, practices of other companies, or prior audit clients) social actors, enabled by contextual characteristics (i.e., ambiguity with accounting rules and problems with information systems) and motivated by both social and individual needs (e.g., identification with organization, desire to please others, need to keep the job) interacting within a financialized corporate environment (e.g., pressure to meet financial targets). From the perspective of hindsight, we are able to identify factors influential to our executives' journey into financial reporting fraud. It should be emphasized, however, that at the time of their immersion into fraud, the influence of these factors or even crossing the line itself was not apparent to or even well understood by many of our executive participants. Indeed, some executives had difficulty remembering or pinpointing when they had first crossed the line and three still denied wrongdoing despite their convictions.

By focusing on the question of *how* C-suite executives become involved in financial statement fraud, our study contributes to the extant research on a number of levels. First, as social actors, the experiential accounts of our executive participants stem from a series of events and the pursuit of ends that have meaning to them (Mills 1940; Schutz 1967; Weber 1968, 1981). Our examination and interpretation of these meanings, reflecting their lived experience, enable us to understand that the immersion of financial executives into financial statement fraud stems largely from micro-sociological drivers rather than from individualistic, incentive laden motives. Second, this study addresses calls for gaining insight into "how fraud is committed" (Morales et al. 2014, p. 177) and "how frauds are experienced by those involved" (Cooper et al. 2013, p. 445) by interviewing '*reluctant*' former C-suite, elite deviants (Adler and Adler 2002). Third, this study explores actors' motives as well as the immediate "socio-structural context" in which fraud takes place (Free and Murphy 2015), providing a more robust representation of executive immersion. Fourth, this study expands our understanding of the 'slippery slope' of financial statement fraud, revealing it to be a more complex and dynamic social process than that portrayed by the fraud triangle paradigm (Wells 1997). We acknowledge as limitations a relatively small sample size and a selection bias in our study as only

[3] The average annual revenue was computed based on each company's last three years net sales before the fraud was discovered. The revenue (or net sales) information was obtained from http://www.sec.gov/Archives/edgar/data and articles published by Forbes, USA Today, or News Center.

[4] Financialization is defined as the powerful role of financial markets and financial actors in shaping the behavior of firms and individuals, advancing the rhetoric of shareholder value maximization (e.g., Cushen 2013; Davis and Kim 2015; Ezzamel et al. 2008; Newberry and Robb 2008; van der Zwan 2014).

former executives indicted and convicted in SEC accounting fraud cases were contacted.[5] Furthermore, all 13 interviewees who voluntarily accepted our invitation had significant time since facing criminal charges and often civil trials to reflect upon or leave behind their lived experience in a large-scale corporate accounting fraud.

This study is organized as follows. The next section describes the role of financial executives in perpetrating financial statement fraud and explains the motivation of the study. We then describe our procedures for data collection and analysis, followed by interview evidence and our interpretation of participants' accounts regarding how they became involved in financial statement fraud. In the final pages, we discuss the findings and implications of our study.

Background Information and Motivation

Empirical Evidence of Financial Executives' Role in Financial Reporting Fraud

Our participants are former financial executives: senior officers of the corporation who typically report directly to the chief executive officer (CEO) and/or to the chief financial officer (CFO), participate in finance-related activities and coordinate with middle- and lower-level managers to validate the completeness and integrity of financial information (e.g., Bell 2007; Davis and Laughlin 2009). The CFO, as the top C-suite financial executive, reviews and approves other financial executives' reporting decisions, has fiduciary responsibilities for financial reporting, and exerts a significant influence on the firm's financial performance and accounting choices (e.g., Feng et al. 2011; Ge et al. 2011; Geiger and North 2006; Indejejikian and Matejka 2009). Titles given to holders of executive-level financial positions commonly include Chief Accounting Officer (CAO), Controller, Vice-president (VP) of Accounting, VP of Finance, VP of Financial Reporting, Director of Finance, and Director of Accounting.

According to Howell (2002), financial executives should be "the first line of defense against overly aggressive accounting and reporting practices" (p. 20). However, a comparison of studies by the Committee of Sponsoring Organizations (COSO) on fraudulent financial reporting for the decades 1987–1997 (Beasley et al. 1999) and 1998–2007 (Beasley et al. 2010) indicates that allegations of fraud participation by financial executives increased strikingly over the later period. In the decade 1998–2007, the participation rates of CFO's (65%) and controllers (34%) in alleged fraudulent reporting cases were 51 and 62% higher, respectively, than the participation rates of CFO's (43%) and controllers (21%) in the 1987–1997 period. Furthermore, the 14th Global Fraud Survey (EY Global Fraud Survey 2016) finds that when under financial pressure, almost half of CFOs and financial executives surveyed justify unethical conduct to meet financial targets.

Researchers have investigated factors associated with financial executives' involvement in earnings management, restatements, or financial statement fraud/irregularities, such as tone at the top, organizational climate, compensation incentives, rationalization of earnings management, top executives' motivations to manage earnings, moral reasoning, and social pressures (e.g., Arel et al. 2012; Armstrong et al. 2013; Baron et al. 2015; Brown 2014; Eskenazi et al. 2016; Dichev et al. 2013; Maroney and McDevitt 2008; Murphy and Free 2016; Rose et al. 2018). Many of the fraud studies in the accounting literature have been motivated by the 'Fraud Triangle' model originally proposed by Cressey (1953). The triangle model combines the three elements of pressure, opportunity, and rationalization while characterizing motives as a phenomenon located "within" individuals and focusing on the actor's fragile morality as the main "causal" explanation of aberrant behavior (Morales et al. 2014). However, research in criminology, sociology, organizational theory, and the behavioral sciences describing why corporate managers and employees commit fraud has typically been guided by theories reflecting explanations more sociological in nature (Van Akkeren and Buckby 2017). On this point, Cooper et al. (2013) and Morales et al. (2014) contend that research entrenched in the fraud triangle (Wells 1997) confines itself to explaining fraudulent behavior from an individualistic viewpoint, ignoring the influence of the social context or marginalizing non-aligned perspective and inquiries. As a result, development of a more holistic and comprehensive understanding of fraudulent financial reporting across its social, legal, political, and economic contexts has been stunted,[6] leaving some important questions unanswered, including "how [accounting] fraud is experienced by [executives] involved" (Cooper et al. 2013, p. 441).

[5] Of the 13 participants, all faced federal criminal charges for accounting fraud. Five entered into plea bargains as cooperating witnesses, avoiding jail time. The remaining eight participants were convicted in court trials and sentenced to jail.

[6] With respect to social context, the importance of organizational factors such as tone at the top and organizational climate has been documented in prior research and practitioner frameworks in accounting (Murphy and Free 2016).

Accounts of Fraud Immersion: Vocabularies of Motives

In recent years an emerging body of critical accounting research has explored a more complex and broader context of fraud than that encompassed by the fraud triangle model (Wells 1997), delving into the process of enculturation (Free et al. 2007; Free and Macintosh 2008), co-offending (Free and Murphy 2015; Van Akkeren and Buckby 2017), institutionalization of illegal reporting acts (Gabbioneta et al. 2012), and construction of trustworthiness (Stolowy et al. 2014). The extant fraud research, however, has largely failed to address or gain insights into *how* C-suite financial executives assign meaning to their misreporting behavior. In other words, how they interpret and import significance to their involvement in financial reporting fraud *after the fact*. According to Weber (1968), meaning is selectively constructed by social actors as a result of subjectively orienting their actions to the actions of others. Alfred Schutz (1967), on the other hand, contends that an action, a flow of events, only becomes meaningful when an actor reflects back on it and interprets. For Schutz (1960), *meaning* (or "because-of-motive") is attributed to an experience in light of what has been carried out and in accordance with the actor's attitude at the moment of reflection, whereas *motive* (or "in-order-motive") is the purpose behind an action. Motives, either "because-of-motive" or "in-order-motive," are inner states that cannot be observed or seen, yet they are believed to cause actions (Ekström 1992; Holstein and Gubrium 2003). Contrary to this belief, philosopher John Dewey suggests that motives are offered as verbal explanations, attributions *after the fact* (Holstein and Gubrium 2003). Mills (1940) also draws on Weber's definition of motive ("a complex of meaning, which appears to the actor himself or to the observer to be an adequate ground for his conduct") to explain that actors use motives, as *words* or "accepted justifications for present, future or past acts" to satisfy themselves or others who are questioning their behavior (pp. 906–907). Implicit in this conception is the intrinsic social characterization of motives: actors acquire *vocabularies of motives* while interacting with others and grasping rules and norms of actions related to a situational context. They learn these vocabularies as part of their language and use them to account for or explain their behavior (Mills 1940). Motives, as features of communication and interaction, are "working *accounts* for what [actors] say and do" and the "social building blocks of this aspect of [actors'] inner lives" (Holstein and Gubrium 2003, p. 246).

Since Mills' (1940) seminal work, research has explored various types of motivational statements. For example, Sykes and Matza (1957) build directly on Sutherland's (1949, p. 7) notion that deviant behavior, including motives, rationalization, and attitudes "favorable to the violations of law" is learned through social interaction, to argue that juveniles become delinquents by learning and employing a vocabulary of rationalizations (i.e., definitions favorable to crime) so as to neutralize demands for conformity made by the dominant social order enforcing societal norms. Extending this idea, Scott and Lyman (1968) develop a more general theory of *accounts* and posit that actors utilize a vocabulary of "excuses" and/or "justifications" to explain problematic behavior associated with a particular social context (organization, culture, subculture, group, or inner circle). "Quasi-theories" proposed by Hewitt and Hall (1973) represent ad-hoc explanations offered by actors in social interactions to rhetorically construct the reality of various kinds of problematic situations. Hewitt and Stokes (1975) introduce the term "disclaimers," a verbal device employed by actors to "ward off and defeat in advance" negative aspects or implications of something they are about to do or say (p. 3). McCaghy (1968) provides evidence that criminals utilize "a deviant disavowal" as a coping mechanism to admit the gravity of their conduct without acknowledging their responsibilities.

Motivational accounts (Mills 1940; Scott and Lyman 1968) and rationalizations (Sykes and Matza 1957)[7] have received considerable attention by researchers in explaining general and specific delinquency and criminal behavior, including organizational wrongdoing. To be relevant, however, motivational accounts need to be situated as part of the narrative process through which individuals make sense of their experience, enabling a more nuanced understanding of their cognition and contextualization of unethical behavior in broader social, economic, and political circumstances (Cooper et al. 2013; Maruna and Copes 2005; Morales et al. 2014). Socialization of actors into fraud underpins the process by which individuals embark on unethical conduct. These social processes range from: (1) the dominant view of organizational wrongdoing focused on cooptation, incrementalism, or compromise (Ashforth and Anand 2003; Brief et al. 2001), (2) the process model of collective corruption emphasizing reciprocity, liking, commitment, or social proof (Palmer and Maher 2006), and (3) the alternative model grounded in social psychology and behavioral ethics stressing social norms, social comparisons, social conformity, and/or compliance to formal authority (Moore and Gino 2013).

[7] To date, "there appears to be at least eight types of rationalizations:" denial of responsibility, denial of injury, social weighting, denial of victim, appeal to higher loyalties, legality, metaphor of the ledger, and refocusing attention (Ashforth and Anand 2003, p. 17). The first five rationalizations are identified by Sykes and Matza (1957) and the remaining are identified by Gellerman (1986), Klockars (1974) and Ashforth and Kreiner (1999), respectively.

Researchers in sociology have analyzed motive-talk to gain insights into what an actor constructs of his experiences (narrative descriptions of meanings and actions, including emotions and perceptions), how the construction process unfolds through the actor's interaction with proximal others, and how the social context is formulated in the actor's account (e.g., Potter and Hepburn 2008). Our characterization of financial executives as social actors parallels Sutherland's (1937, 1949) emphasis on the importance of understanding the processes of socialization by which actors learn to commit criminal behavior while aligning their views with the customs, codes, and practices of their inner circle. By interacting with deviant others, C-suite executives become group members and incrementally redefine acceptable reporting behavior. In interpreting their vocabularies of fraud immersion, this study endeavors to understand how these executives, through their reconstruction of actions and events leading to their involvement in fraud, committed financial misreporting while giving particular emphasis to the relevant social and contextual features emerging from their accounts.

Method

We chose the 2000–2006 period for examination because not all court cases filed by the SEC prior to 2000 were available on its website and because we limited our sample to financial executives who became involved in accounting fraud before the enactment of the Sarbanes–Oxley Act (SOX) but had not been on trial and had not received final judgments until after SOX. The year 2006 represented a cut-off line for many financial executives who received final judgments. Financial executives who became involved in accounting fraud cases after the passage of the SOX were not included in our sample for a number of reasons. First, SOX could have influenced the behavior of financial executives in the reporting setting. For example, the post-SOX certification requirement of CFO's may have created more executive awareness and altered their decision-making, as intended. Second, this study was initiated in 2011 and identifying a sufficient number of post-SOX executives who were put on trial, received final judgments, and served jail time would have required a much longer time frame to complete the study. Third, combining pre- and post-SOX financial executives in our sample would have increased the level of complexity to analyze the interview narratives, identify emerging themes across pre- and post-SOX cases, and extrapolate factors that are 'unique' to pre- or post-SOX period. Finally, major cases of financial misreporting by public companies were somewhat common in the years leading up to SOX, but relatively rare in the initial post-SOX period.

Interviewees

Potential interviewees were identified using a two-step process. First, we compiled a pool of financial executives involved in accounting fraud cases through the U. S. Securities and Exchange Commission (SEC) Litigation Releases and the SEC Accounting and Auditing Enforcement Releases from the years 2000 to 2006. During the 2000–2006 period, the SEC identified 244 cases of accounting fraud across 40 different industries; 189 of these cases included alleged involvement by financial executives. Second, we used various sources to locate those executives[8] and obtained contact information for 104 of these individuals. The majority of the 104 executives declined or did not reply to our invitation but 13 agreed to be interviewed. Table 1 provides further details about the interviewees, their criminal sentences, monetary penalties, and exit decisions.

Our focus on high-level financial executives involved in major cases of financial reporting fraud is purposely narrow and deep, enabling a comprehensive study of this phenomenon.[9] All 13 interviewees were American citizens and male, typically middle-aged and 12 identified racially as white/Caucasian. The participants worked across eight different industries and most were Certified Public Accountants (CPAs) at the time of the accounting fraud.[10] The interviewees were high-status corporate elites, with 12 having been a financial executive (i.e., CFO, controller, chief accounting officer (CAO), director of finance or corporate director of accounting) and one a former business unit chief operating officer (COO) who was included in our sample because he was responsible for reporting the company's financial performance. Of the 13 interviewees, nine were required by court to pay back monies with interest to shareholders affected by the accounting fraud scheme. Eight were sentenced to prison, serving jail time ranging from less than 12–72 months. Six interviewees had previously worked in public accounting firms as external auditors. The participants had no criminal background prior to their fraud conviction.

8 We obtained contact information from a private investigator (51), a former FBI agent from the fraud division (16), a journalist (1), fraud conference speakers (2), and LinkedIn (34).

9 In contrast, Free and Murphy (2015) focus more broadly on 'why' prison inmates (executives and non-executives) co-offended or cooperated with a group of two or more to engage in white-collar crimes, which ranged from financial reporting fraud to false information in mortgage applications to false real estate appraisals to improper disclosure of stock-market transaction fees to the use of falsified reports to a government regulator to mortgage fraud and wire fraud to asset misappropriation to corruption. Only 5 of 37 interviewees (white-collar criminals) were executives involved in financial reporting fraud.

10 Under a confidentiality agreement intended to protect our participants' identity, we do not disclose the industries of their employers.

Table 1 Summary of participant cases

Interviewee's pseudonym (profile)	Interview time (minutes)	Former accounting designation (CA/CPA/CIA)	Corporate or business title[a]	Sentenced to jail[b]	Experience in firm performing the external audit?	Age at time of fraud detection or sentencing	Disgorgement and penalty order (US dollars)[c]	Exit decision
Cam (white male)	190	CPA, CIA	CFO	Yes 60–72 months	Yes	40–50	($12 million, $19 million)	Caught
Fred (white male)	130	CPA	CFO	Yes 0–12 months	No	50–60	($100,000, $300,000)	Resigned and caught later
Jack (white male)	195	CPA	CAO	Yes 48–60 months	No	60–70	ND	Caught
Ralph (white male)	125	CPA	Corporate Controller	Yes 0–12 months	Yes	30–40	($0, $10,000)	Resigned and caught later
Bobby (white male)	125	–	Corporate Director of Finance	Yes 36–48 months	No	30–40	NA	Resigned and caught later
Eric (white male)	125	CPA	Corporate Controller	Yes 24–36 months	Yes	40–50	($5, $8 million)	Blew the whistle
Henry (white male)	110	CPA	CFO	No	Yes	30–40	($10 million, $20 million)	Blew the whistle and caught
Doug (white male)	135	CPA	CFO (business unit)	No	No	40–50	ND	Caught
James (non-white male)	175	CPA	CAO	No	No	40–50	($200,000, $300,000)	Caught
Jose (white male)	150	–	COO (business unit)	Yes 24–36 months	No	40–50	($2.5 million, $5.5 million)	Caught
Joe (white male)	150	CPA	CAO	No	Yes	40–50	CP	Caught
Elliot (white male)	110	CPA	CAO (business unit)	No	Yes	40–50	($300,000, $600,000)	Caught
Tom (white male)	120	CPA	Corporate Director of Accounting	Yes 12–13 months	No	40–50	($100,000, $200,000)	Caught

ND no disgorgement or disgorgement waived, *CP* civil penalty but no disgorgement, *NA* no information about disgorgement

[a]*CFO* Chief Financial Officer at the company that issued false financial statements (or the company of interest), *COO* Chief Operating Officer at the company of interest

[b]Due to the confidentiality agreement, we do not disclose the exact time of jail conviction

[c]Information on the amount of disgorgement and/or penalty is presented in an interval in order to protect the identity of our interviewees

Interviews of our 13 executives followed an open-ended question protocol designed to enable and encourage them to be spontaneous and at ease about their participation, while giving them the space needed to reflect upon and present their perspectives (or meanings) of becoming involved in financial misreporting (Kvale 1996; Power and Gendron 2015; Sudman and Bradburn 1983). We acknowledge a selection bias because each participant voluntarily accepted our invitation.[11] All participants had significant time since facing criminal and/or civil trials to reflect upon their lived experience in accounting fraud. The interviews consisted of three open-ended questions[12]: (1) "If you were to write

[11] While it is possible that psychopaths with extroverted personal charisma and charm are more willing to share their stories than non-psychopaths (e.g., Babiak et al. 2010; Boddy 2011; Hare 1993), we do not believe our results are contaminated because of the difficulty,

Footnote 11 (continued)

along with a considerable amount of time and effort, we experienced in convincing the 13 fraud perpetrators to participate in our study.

[12] During the first interview, the participant was sensitive to the word "fraud," showing a state of extreme discomfort and unwillingness to utter the word. Based on this reaction, we modified the questionnaire by replacing the word 'fraud' with 'crossing the line.' Observing how sensitive participants were during the interviews, we took extra care to not antagonize them and make them feel comfortable about sharing their experience in accounting fraud. The revised interview questionnaire was used for the subsequent twelve interviews. The narratives of

your own biography, what kinds of things would you like to talk about?", (2) "How did you start working at (the company of interest)?", and (3) "Going back (to the company of interest), could you take a minute to think and tell us about the first time you remember 'crossing the line'?" The first two questions helped us get to know the interviewee and put him at ease. The third question was framed broadly so that our interviewees could share their narratives "with as little [constraint and] disruption as possible" (Power and Gendron 2015, p. 156). The open-ended interviews of our participating executives were lengthy and unrestricted, ranging from 110 to 195 min, in contrast to the access limitations and semi-structured interviews of Free and Murphy (2015). Our in-depth interviews enabled us to collect an extensive amount of data illuminating how participating executives were drawn into financial statement fraud.

All interviews took place between 2011 and 2016 and were conducted face-to-face in places as private and secluded as possible (Adler and Adler 2002), except for one individual who requested a phone interview.[13] The interviews were recorded and professionally transcribed. In general, one member of our author team made the original inquiries, while a second author took detailed notes of responses.[14] Each participant had the opportunity to verify the accuracy of the transcript and add information or modifications. Subsequently, each participant read our preliminary findings and had the opportunity to make further comments. Finally, we sent a draft of the study to every participant so that they could see how their account of crossing the line was represented in the context of our analysis, letting us know of any concerns including those related to confidentiality.

Analysis

The interview narratives comprise speech acts and provide us with a unique opportunity to access empirical traces of discursive behaviors (Denzin 1970; Kvale 1996, 1996; Gubrium and Holstein 2002) and we utilize interpretative phenomenological analysis (IPA) to evaluate the accounts of our participants. Typically, IPA is focused on a meticulous examination of a discrete set of cases discussed in relation to the extant literature. Because of the nuanced and detailed nature of the analysis, IPA can only be conducted on relatively small samples (Smith 2008; Smith and Osborn 2003). IPA is *idiographic* because it starts with "the detailed examination of one case until some degree of closure or gestalt [overall topic(s) or theme(s)] has been achieved, then moving to a detailed analysis of the second case, and so on through the corpus of cases. When that has been achieved, a cross-case analysis is conducted as the themes for each individual are interrogated for convergence and divergence" (Smith 2008, p. 41). IPA is appropriate for this study because its inductive and illuminating nature enables the identification of emerging thematic narratives, leading to the construction of themes around a central structure. Each central theme depicts an overarching account of how the executive(s) became immersed in fraud.[15]

Consistent with the characterization of 'process' by Palmer and Maher (2006) but moving beyond to a more interpretive level (Schutz 1967; Smith 2008; Smith and Osborn 2003), we comprehensively examine each of the 13 interview transcripts detailing a series of events shared by the executive in reporting or non-reporting contexts. Our analyses are intended to identify and interpret the themes (e.g., proximal social actors, contextual characteristics, and individual motivations) recalled by the executive as *meaningful* to his journey toward or path into fraud. Each of the 13 interview transcripts were analyzed multiple times to identify: (1) individual themes emerging from each executive's account, (2) connections among themes within individual narratives, and (3) central themes emanating from similarities and differences in individual themes across cases (Ahrens and Chapman 2006; Miles and Huberman 1994; Smith and Osborn 2003). We attempt to make sense of how various themes link together within and across specific cases and synthesized individual themes into hierarchical ones. While conducting our analyses, we looked for atypical or incongruous narratives to minimize self-selection biases (Miles and Huberman 1994).

Footnote 12 (continued)

the first interview were included in the main study as concern about potential data contamination is minimal in qualitative research compared to quantitative research (e.g., Holloway 1997, p. 121).

[13] It took us a considerable amount of effort and time to convince the participants to voluntarily join our study. In 2011, we did not have all 13 interviews scheduled for the study. As we started with one interview, we were also contacting other executives. This effort lasted for 5 years before all interviews were completed.

[14] The interviewers followed the approach used by Gendron and Spira (2010), seeking "to be perceived as empathetically neutral, caring about the [financial executives' meaning on becoming involved in fraud], while endeavoring to take a neutral stance toward emerging content…" (p. 280).

[15] According to Smith (2008, p. 40), "…IPA aims to explore in detail participants' personal lived experience and how participants make sense of that personal experience. It is phenomenological in its concern with individuals' perceptions of objects or events, but IPA also recognizes the central role for the analysis in making sense of that personal experience and issues, strongly connected to the interpretative tradition. The participant is trying to make sense of their personal and social world; the researcher is trying to make sense of the participant trying to make sense of their personal and social world."

Types of Fraud Immersion Accounts

Our analysis revealed five different types of fraud immersion narratives: (1) accounts of social cues, (2) accounts of social conformity or compliance, (3) accounts of the clan culture imperative, (4) accounts of rational choice, and (5) accounts of system chaos. The participating C-suite financial executives were all employed at companies experiencing rapid expansion, including via mergers and acquisitions, with some having plans for an initial public offering (IPO). While describing their company's background information, executives often portrayed top leaders as having a "bottom-line mentality" (Wolfe 1988) or market culture imperative driven by a financialized corporate environment[16] focused on meeting the expectations of investors and Wall Street. Immersed in pressurized, goal-oriented contexts, all of the participating executives, except one, appeared to shift their attention to financial objectives such as revenues, earnings per share (EPS) or stock prices[17] and synchronized their notion of 'success' to the related financial targets. The executives stressed the need to show a steady improvement in revenues or net income, and/or or to meet the EPS number set by Wall Street. Other executives referred to stock prices as the barometer of the company's performance or even their own performance, while funding acquisitions with overvalued stocks was a common financial goal:

> Oh, yea, I mean… so… and so the way that the company was able to continue to do acquisitions, most of the acquisitions were funded with stock and so the stock was trading at an incredible high multiple and that made an excellent currency and if you didn't hit your numbers and the stock price stops, you know, it all stops. (Ralph-Corporate Controller)

We discuss below each type of thematic account in terms of the influence of proximal or distal social actors, contextual characteristics, individual motivations, reflections on 'crossing the line,' and the various accounting practices that enabled the fraud. Table 2 summarizes relevant details of each executive's fraud narrative. Pseudonyms are used throughout to protect the identity of the interviewees.

Accounts of Social Cues

> The justification in my mind was that it was more or less aggressive accounting, creative accounting, and had been going on before my time and those involved were praised and rewarded. They were considered true, pushing the envelope, you were expected to do so, um, it was the culture. You expect… you were expected to do it. (Joe-CAO)

The above quote highlights the culture of 'aggressive reporting behavior' that Joe and Elliot were exposed to when they joined their firms. Jose, on the other hand, had already worked for the company long enough to be familiar with the corporate culture when he accepted the job of COO. Rather than constructing the meaning of their fraud participation through a shared understanding of the in-group (Palmer 2012), these interviewees seemed to make sense of their role based on social cues related to the reporting conduct of important actors observed in proximal or distal contexts, such as superiors or accountants in other business units, (Moore and Gino 2013; Salancik and Pfeffer 1978).

Elliot stated that he began grasping the company's culture while pre-closing the business unit's earnings against the budgeted EPS and getting requests from the corporate office on a quarterly basis for more earnings. As the "calls for dollars" kept coming, Elliot told us he realized the company was being overly aggressive with annual budget planning and used accounting practices to meet growth expectations and to cover losses associated with questionable business dealings. He recalled that there was always pressure on his business unit to produce earnings and that accountants across units were under pressure to restructure transactions around accounting methods, paying more attention to form over substance. Elliot's recollections suggest that he looked to organizational cues for guidance on appropriate reporting behavior and gradually acclimated to the company's culture (Moore and Gino 2013).

In a similar vein, Joe made sense of his situation and justified his misreporting by reference to analogous reporting behaviors of prior audit clients and former audit partners. The "rigging process" explained in the excerpt below illustrates how Joe convinced himself that the accounting issue he had "inherited" was no different than what he had observed at his former public accounting firm:

> So in my mind it wasn't anything… problematic, you know…The analogy that I looked at it from was not any dissimilar than when I was in my accounting, uh, when I was at my audit firm when the audit partner would sit with the company and they'd say, well, they'd have these adjustments and the company wouldn't want to change the numbers so they'd go out and they'd find other adjustments to offset it. You

[16] Financialized corporate environment refers to "the increasingly significant role of financial markets, financial actors and financial motives in daily life [of a company]" (Cushen 2013, p. 314).

[17] Our interviewees' sensitivity to key financial metrics such as stock prices and EPS resonates with the CFO survey responses reported by Dichev et al. (2013). The authors find that the desire to influence stock prices and Wall Street pressure to hit earnings targets are some of the main reasons as to why companies manage earnings.

Table 2 Accounts on crossing the line: a series of decision events, contextual characteristics, and individual motivations

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
Accounts of social cues	Joe	1. Observed the company meeting EPS forecast on quarterly basis 2. Inherited the reporting process (massaging and window dressing) 3. Built fungible reserves and used the reserves to meet EPS forecast—a rigging process	Identification with the company • Desired to work at a "marquee kind of client."	• Goal-oriented environment • Auditors' implicit approval—"It got through the audit." • The firm's earnings management is no different than public accounting's rigging process	I never felt like I was committing a fraud
	Elliot	1. Started getting phone calls from the corporate office—needed to produce more earnings 2. Began to recognize the corporate culture 3. Produced more earnings through fair valuation reserve accounts	Identification with the organizational role • "They need the help, there's not a logical other candidate internally." • Accepted the offer of corporate CAO based on the promise that he will do it for a couple of years	• Goal-oriented environment • Accounting was exploited as a mean to justify the ends across business units • Ambiguity regarding to the application of fair value accounting	"At what point do you cross the line where that act becomes illegal?"
	Jose	1. Already familiar with the culture of "show success." 2. Exercised lots of judgments and allowed the business unit to issue reports with gains when in reality losses should have been reported	Identification with the organizational role • Desired to be successful: an attitude consistent with the company's goal (show success) • "I thought I could help it [the business unit]."	• Goal-oriented environment • Lack of accounting rules for a new market	I don't know that there is a time [crossing the line]

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
Accounts of social conformity or compliance	Bobby	1. Instructed to carry out corporate restructuring practice 2. Coped with an obsolete, lax information system, which increased difficulties in handling sales and uncollectible accounts 3. Received instructions to delay the recording of write-offs and executed the order 4. Group dynamic—moved numbers around by delaying the recording of write-offs in small amounts (distinct recognition of wrongful act)	• "I tend to be a pleaser. I want people to… to appreciate me." • A sole bread earner • Focused on keeping the write-offs under its lowest threshold	• Goal-oriented environment • An obsolete, lax information system • "So however, you got there, and if it passed [auditors], you know, once it's printed and it's… Then to me that's legit. That's real."	It's really difficult for me to find places where I did it

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
	Fred	1. Received a suggestion to capitalize the IPO cost from investment bankers 2. Subsequent to the first IPO, capitalized operating expenses as part of the IPO cost 3. Promoted the company's stocks by lying to Wall Street—"it was part of the game of being a public company." 4. Used reserves to manage earnings 5. Failed to act against the group's decision—record bogus entries to manipulate numbers (distinct recognition of wrongful act)	• Desire to please people and Wall Street, and to fit in with the elite group • Focused on getting the company through its first IPO and pleasing the Wall Street	• Goal-oriented environment • Auditors knew it • "I really knew that most everybody was very guarded on how they talked to analysts and how they address the street."	I cannot remember a distinct moment...when I crossed the line

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
	Ralph	1. Observed the CFO and the corporate controller to get rid of old receivables (a bystander effect) 2. Discovered deficiency in the new system implemented 3. Passively watched the audit partner, the CFO and the corporate controller to make the reporting decision (i.e., record estimated sales) and issued the quarterly report with estimated sales 4. Carried out the instruction from the CFO to reverse entries to manipulate numbers (distinct recognition of wrongful act)	• "I figured that if you didn't do what you were told to do that you would be gone…my wife was pregnant with our third child…you know… so made the entries." • Focused on releasing financial statements before or on a due date—"Cannot miss the reporting date."	• Goal-oriented environment • The new system failed to accurately capture sales transactions: "things were out of control." • Audit partner approved it (recording of sales estimate)	I think it's hard to pinpoint exactly when it… when it started

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
	Tom	1. Received instructions to find reserves and manage earnings—"We had a meeting and decided to [find reserves] and give the CFO time to get the company back on track." 2. Had to capitalize operating expenses—it was the CFO's idea. "I am a little bit antsy. It bothers me….you want the company to continue and be successful." 3. "It bothered us. It bothered everybody in the group… It would be a bad way for you personally (distinct recognition of wrongful act)."	• "Never built up that moral conviction or whatever it is to [say no.] I don't know if that's just the blue collar family background I come from but it's just the desire to please other people." • Focused on findings reserves to help the CFO to manage earnings	• Goal-oriented environment • Accounting information system was used as a tool for earnings management • "The CFO was never anything but nice to me and my staff…he was pleading with us to help get the company back where it was." • "I didn't think of external auditors. I don't know how they missed it, how they passed on this."	It was just the earnings management
	James	1. Faced with technical issues related to AIS 2. Started upgrading AIS, hiring more staff and relocating staff to corporate office 3. In the meantime, reported estimated sales and accrued expenses on a modified cash basis 4. Carried out the CEO's order to round up EPS	• Aspired to be the next CFO • "I can't think of any time I said no to the CEO." • Focused on findings 'legitimate' options to meet EPS forecast	• Goal-oriented environment • Obsolete accounting information system • The CEO was a very caring person and auditors were aware of the reporting decisions and did not object • Annual bonus was tied to the organizational goal	I… firmly believe that we did not do anything wrong

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
	Jack	1. Learned about servicing system and started noticing unusual lending practices 2. Observed questionable business practice and expressed concerns to the CEO. "I was told that's not your business. You keep track of your accounting records…I have no control over that." 3. Prepared the financial statements with the footnote on unsecured receivables 4. Told the CEO that he can't keep doing unethical business practice (Ponzi Scheme), and was forced to keep the books	• Could not afford losing the job for the third time • A sole bread earner • Powerless position: "I put my head in the sand, and just said okay, I don't really have a position up here anymore." • Focused on moving money out of the intercompany account	• Goal-oriented environment • Segregated information system that prevented Jack from accessing information about loans without collaterals • "Investors should be able to […] uncover the fraud." • Auditors signed off on it	It was a tenuous situation
Accounts of the clan culture imperative	Henry	1. Participated in fraud on day one (Under-reported cash and over-reported receivables.) 2. Prepared the company to go public by falsely reporting profits 3. After the IPO, engaged in earnings manipulation	• Identification with the core group—Loyalty to the core group	• Goal-oriented environment	It is difficult for me to tell you the first time I ever crossed the line

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
	Eric	1. Managed reserve numbers 2. More earnings manipulation through acquisitions and reserves	• Identification with the core group—"We are going to grow our way out of these problems."	• Goal-oriented environment • "The accounting firms are signing-off on things." • "Other companies are doing this [managing earnings] worse than we are."	I don't remember the first time I crossed the line
Accounts of systems in chaos	Doug	1. The new Enterprise Resource Planning (ERP) system implemented was dysfunctional and chaotic, in particular system associated with valuation of inventories and receivables 2. Started cleaning up the accounting mess 3. The recording of write-offs occurred over time	• Did not identify with the company's goal (EPS forecast) and corporate top leaders' interest in meeting financial targets • Tried to fix the problems of the new ERP system	• The new ERP system was dysfunctional, and it took time to gather information • Others intentionally withheld financial information from Doug and his team	We [Doug and the president of the business unit] never did that [crossed the line]

Table 2 (continued)

Type of accounts	Interviewee's pseudonym	A series of decision events, including misreporting acts	Individual motivation	Contextual characteristics	Crossing the line?
Accounts of rational choice	Cam	1. Watched audit partner and manager to engage in unethical auditing decision, but opted not to confront them 2. Conducted the first cost-benefit analysis and used reserve accounts and met the EPS forecast 3. Conducted the second cost-benefit analysis and used reserve accounts/acquisitions to manage earnings 4. Confronted the CEO and told him that the company cannot keep managing earnings 5. Could not face family and friends and expose the reality that he has been lying and cheating—Had to commit to fraud	• Client advocacy attitude shaped the executive's attitude toward the company's problem—"need time to fix the company." • Pride (i.e., CFOs don't lie) • Contrasted the benefit of helping the company to the cost of getting caught by auditors	• Goal-oriented environment • Learned from the public accounting firm to always advocate for the clients	Distinct recognition of crossing the line

> know? So it was like, you know, it was all a process. It was a rigging… almost like a rigging process (Joe-CAO)

This quote also suggests that Joe's exposure to client advocacy behavior in his prior role as an external auditor enabled him to readily shift his attitude to one commensurate with the company's culture (Ashforth and Anand 2003; Salancik and Pfeffer 1978), dampening his moral awareness of questionable reporting practices and directing his attention to more positive aspects of the company, a situation described as "goal shielding" by Moore and Gino (2013). Joe claimed:

> I didn't see or I didn't accept some of the things that were happening or I ignored some of the things that were happening because there were so many great things about the company that I worked for that I put that ahead of some of the things that were happening... (Joe-CAO)

Jose, on the other hand, saw his role as 'instrumental' (Ashforth and Anand 2003) in implementing structures and promoting growth for the business unit:

> It [the business unit] was… it was poised for growth but it didn't have all of the structures in place necessary to grow and to thrive and I was very structure and hands-on and I thought I could… I could help it. (Jose-Business unit COO)

Jose noted that emulating the reporting behaviors of a unit considered successful within the organization enabled him to "have the wind at [his] back from a career standpoint." Jose also implied in the excerpt below that he had difficulty formulating an objective perspective regarding the company's emphasis on competition and achieving 'success' because of the prevailing acceptance of the organization's culture and goals by his co-workers. This reflection echoes Coleman's (2002) claim that large organizations foster a unique culture that molds members' behavior without their conscious awareness of the ethicality of their conduct:

> People are all… pretty much all in and, you know, embedded in that culture. It's pretty hard to get a true perspective. […] I think you know organizationally that's the way people acted, you know that's the way leaders acted they, they pretty much went out and said, this is how we're going to be a super successful. So there's a sort of tacit acceptance of that, an expectation. It's sort of a conspiracy of silence (Jose-Business unit COO)

Our analysis indicates that individual motivations and contextual characteristics, such as an amenable external auditor or accounting rule ambiguity, appeared to both enable and amplify the influence of social cues on interviewees' reporting behavior. A desire to be successful emerged as an important theme behind the decisions of two executives' to join their organization, facilitating their acceptance of the company's aggressive reporting practices. Joe drew upon his desire to work at a "marquee kind of client" and Jose associated his "drive for success"[18] with the company's 'culture of competition' (Coleman 2002, p. 189):

> I think it was clearly part of the culture to… uh…[push the boundaries] to… to say this is… this is great, you know, this is, this is victory, this is successful and then just change the subject if it's not. My… my drive for success was consistent with the organization's drive to show success. (Jose-Business unit COO)

Elliot and Jose noted a degree of uncertainty with respect to the application of some accounting rules (Soltes 2016), implying that it was difficult to judge the ethicality of their decisions when made under ambiguous guidance. Beyond micro-sociological factors, grey areas of accounting blurred the line demarcating acceptable practice:

> There are certain things that I don't think as hard as we want to try to make them bright lines, they're never gonna be anything but fuzzy. And so that's where judgment comes in. (Elliot-Business unit CAO)

Elliot exploited accounting ambiguity by drawing on the use of algorithms to value certain complex transactions (a grey area involving the application of fair value accounting) and the use of reserves (to modulate income reported on the books against what the trading book would have reported) to meet the CAO's demands within a financialized decision context: "You cannot say no to corporate calls for dollars."

Often immersed in the market culture, interviewees did not seem to view aggressive financial reporting behavior as a clear 'line' between right and wrong reporting acts. Thus, when asked when the line had been crossed, Jose commented, "I don't know that there is a time. I think that it's a very… it's a very complicated… sort of question and situation." Joe denied any personal wrongdoing throughout the interview, claiming, "I never felt like I was committing a fraud." During the interview, Elliot acknowledged in hindsight that the corporate culture was morally corrupting. Commercial terms were written or "cracked" to accomplish the company's reporting goals and accounting was exploited as a means to justify the ends, condoning unethical earnings management practices for the sake of 'the greater

[18] From the interview narratives, we found that Jose's aspiration for success dated back to his earlier years when he visualized his notion of success, as opposed to failure, by thinking of an image of a white collar person in a business environment respected for his mind versus a blue collar worker with a lunch pail and tool belt.

good' (Brief et al. 2001; Johnson et al. 2012). Following this admission, Elliot claimed:

> They crossed the line. What's the point at which they crossed the line? I don't know the answer to that. They might have crossed the line before I ever walked in the door. (Elliot-Business unit CAO)

Amid his reflections, Elliot explained that it was difficult for him to identify the 'line' or the moment when the ethicality of reporting practices became acutely more aggressive from one reporting issue to the next:

> I call it increment… incrementalization, whether that's even a word. You… you get to here so it must be okay to go here. And if you're here, it surely is okay to go here. It's really fuzzy where you cross the line […] At what point do you cross the line where that act becomes illegal? I don't know. I don't know. (Elliot-CAO)

Accounts of Social Conformity or Compliance

> We had a meeting with the partner and we were talking about what we're doing and you know, how we're trying to figure out what the sales are and he [the audit partner] suggested that they [the CFO and the corporate controller] stop and that they estimate what sales were. I was, you know, speechless. Well, I've never… I'd never heard of such a concept, you know, and… and I don't know if he grasped… grasped the magnitude. (Ralph-Corporate Controller)

This quote indicates that Ralph was surprised to hear the audit partner's proposal because he knew it was inappropriate and a violation of reporting rules. Like Ralph, other executives (James, Fred, Tom, and Bobby) had reservations, with an 'inner voice' telling them that 'something is not right.' Instead of acting upon their inner voice and resisting, however, the executives cooperated and aligned their reporting behavior to that of other social actors (*Social Conformity*) or acquiesced to a proximal actor's request, such as the CEO (*Compliance*) (Cialdini et al. 1999; Cialdini and Goldstein 2005; Moore and Gino 2013).[19] For example, Jack was suspicious regarding the legality of the company's lending practice (i.e., inter-company loans without collaterals) and started questioning the CEO regarding whether the company should engage in it. The following excerpt describes Jack's attitude toward the CEO's negative reaction:

> I was told, you know that's not your business. You keep track of your accounting records, we'll run the company. So, you know I sort of pulled my head back in and said, okay my job is to manage the accounting records. If the business goes to pot, that's not my concern. I have no control over that. These people supposedly know what they're doing. (Jack-CAO)

Tom, who "didn't like [the CEO's request]" but did not object, utilized reserves to get the numbers where they needed to be. Like Tom, Fred also followed a questionable approach, (capitalization) suggested by an investment banker and condoned by the CEO, to get the company through its first initial public offering (IPO). Ralph, despite claiming to be speechless when the audit partner presented his sales estimation proposal, failed to oppose the CFO and the corporate controller's decision to book the entry and prepared the quarterly report with the bogus sales number. James, who felt pressure to meet a reporting deadline amidst the struggles he faced with a rudimentary and inadequate information system, reported estimated sales and accrued expenses on a modified cash basis based under the rationale: "I didn't like it but [the CFO and I] really didn't have a choice." Bobby executed orders ("delay write-offs") despite realizing their impropriety, implying that he found some level of 'wrong' acceptable:

> I saw it as… something that I didn't think was right but only… I don't know how to really explain it. I mean, it was… I knew that… I knew that there was some parts of it that were wrong, I just didn't know how wrong it was. (Bobby-Director of Finance)

According to the interview narratives, the executives' reporting decisions became gradually more aggressive in subsequent periods or in reporting related transactions compared to the initial impropriety. Eventually, Jack, Tom, Ralph, and Fred reached a point where it was apparent that the company was engaging in or about to embark upon financial reporting fraud. However, rather than resisting or attempting to stop the misreporting, they *compromised* their positions and acquiesced. The turning point for Jack was the moment when he stopped questioning the company's unethical lending practices, after being marginalized by the CEO from making important reporting decisions and relegated to day-to-day accounting tasks, losing his status within the firm. The excerpt below describes the CEO's power tactics that forced Jack to "put [his] head in the sand":

> My role continued to diminish as we hired other people to work in…So my, my influence continued to drop down as the company grew […] I was involved in it on a day-to-day basis providing the information that the auditors asked for from an accounting standpoint and the general ledger entries but the other intricacies

[19] Compliance means acquiescence to a request, whereas social conformity refers to the act of changing one's behavior to match the responses of other social actors (Cialdini et al. 1999; Cialdini and Goldstein 2005; Moore and Gino 2013).

> that go into the financial preparation…I was excluded. I said, you know, fine. I put my head in the sand, and just said okay, you know, I don't really have a position up here anymore, I'm safe, I'm just going to work here until I retire, and walk away and forget. [My motivation was] just to keep the job I had. It beat, after being unemployed for a year, anything was better than that. So…and with the situation with the kids getting ready to go to college…you know I just didn't think about the consequences going forward (Jack-CAO)

In a similar vein, Ralph also felt a strong need to keep his job and "backed into" fraud after resisting the CFO's initial request to manipulate earnings (i.e., reverse entries) and being told that he could be replaced.

The turning point for Tom was when he realized that innocent investors, such as "little old ladies," were investing their retirement money in company stock because of false financial statements. He drew on this desire to please others, such as employees/acquaintances in his hometown whose livelihood depended on the company's 'success,' to explain that he never possessed the moral conviction to actually stand up to the CFO:

> You are concerned about [the 50 employees] and their livelihood if something does happen with the company. (Tom-Corporate Director of Accounting)

Fred capitulated when he failed to speak up against other executives' decision to create and then book bogus entries, a solution that was proposed after running out of reserves. According to his narratives, Fred wanted to do the right thing ("report the bad quarter") but the CEO refused to follow his recommendation and pressured everybody to find an 'alternative' solution. Fred's inaction or lack of objection to the proposed alternative enabled the company to avoid reporting a bad quarter and 'forced' him to embark on what he described as a journey of 'black accounting.' The excerpt below describes Fred's reaction to the fraud scheme:

> I view this as total fraud, total… this was illegal, this was wrong. I knew it, you know. I could rationalize all the other things that we did as… part of the game, but this was very distinctly wrong and I knew it. […] I…I…I'm not a confrontational person. And I…my basic nature is to not confront people. (Fred-CFO)

This quote implies that Fred accepted or rationalized aggressive reporting acts (e.g., exploiting a capitalization rule and 'grey' areas as well as lying about non-financial information) but he could not justify or legitimize the creation of bogus entries. Nevertheless, Fred's desire to please others overcame his reservations:

> It's almost… it's almost like a teenager and peer pressure. A teenager will do things because of peer pressure. They'll smoke a cigarette or do whatever. Because they want to fit in, they want to be liked, you know. And I think that was a lot of what motivated me. (Fred-CFO)

Bobby, a sole 'bread earner,' also drew on his tendency to please others in explain that he could not oppose his boss's decision to delay write-offs, nor did he oppose the irregular reporting practices of managers from other departments (marketing, accounting, planning, and business development). The excerpt below describes Bobby's interaction with other managers:

> I would go into a meeting and we would sit down and go, look, this customer owes us $3 million, When can I write this off? And because I even asked the question is… is kind of tell… is very telling in itself. You know, when can I write this off? Why would I ever ask permission to do the right thing? Why do you even have to ask anybody? You should be making a statement, I'm going to write this off this month. You can't write this off. That's… you know, look, our budget for this month is a million, why don't we take, you know, again, a key word, why don't we take a million of that this month? And then we'll take… we'll take another million the next month and we'll kind of see where we're at next month. (Bobby-Director of Finance)

Bobby's interaction with managers from other departments appeared to shift his decision-making from an ethical frame ("am I doing things right? What have I done wrong?") to a business frame ("results"), undermining his intrinsic motivation to make correct reporting decisions and pushing him across the 'line' (i.e., "move numbers around"). Bobby noted:

> I became angry about the position that I had found myself in of being this person out front and moving these numbers around and giving the results that they want to and then like I'm going, you know, damn. This isn't going to stop. (Bobby-Director of Finance)

Like Bobby, James, who aspired to be the next CFO, denied wrongdoing. James indicated that he had a very short window of time to go through all of the accruals and produce the target numbers, implying that he used judgmental accounting or grey areas in accounting standards to 'round-up' EPS to the amount that the CEO had set. It was his duty to have 'legitimate' options to close the gap between forecasted EPS and reported EPS. A 'No' response to the CEO's request was not an option:

> My CEO asked me, "Hey, can you, you know, can you get this rounded up to 20%?" And based on the experience…I had, I'd have to tell him no. But guess what? I'd probably be out of a job. I can't think of any time

> that I said no [to the CEO's request]. Um… I always, quote, had a list of options, of… things, of judgments that we could look at doing differently, like… like the… the shrinkage accrual. So you know, there was just a number of accruals that we could always take a look at and make judgments. So… and again, I don't believe I can remember where there was a situation where the gap was just so big that I had to say, no. I was… it was always we were very close to a target and I always felt that as a chief accounting officer I had to have options, legitimate options that could get us to where…(James-CAO)

If the auditors did not question the numbers, dubious accounting practices and fictitious amounts were reflected in the annual financial statements, certified in compliance with accounting standards. The external auditor's 'signing-off' on dubious accounting reinforced Joe's belief in the 'legitimacy' of their reporting decision: "It got through the audit." James rationalized that he had validly assisted the CEO in making the company successful, claiming: "once you report, that's the number."

Other executives (Bobby, Fred, Ralph, Tom, and Jack) held similar views toward the reported numbers after their release on audited financial statements. A common occurrence across participant narratives was the failure of the external auditor to critically question aggressive reporting practices. Their collective testimony suggests that the auditors' opinion served as an imprimatur, laundering the accounting and formally authorizing the reporting behavior. Bobby, for example, claimed "once it is printed…that's legit. That's real." Fred and James noted "auditors knew it" or "auditors were aware of it and they did not raise any issue with the audit committee." Tom said "I don't know how they passed on this," and Jack defended his accounting by proclaiming:

> I felt from an accounting standpoint that I had fulfilled my obligation to the investing public. And evidently so did the auditors that signed off on it. (Jack-CAO)

Interviewees' failure to act upon their 'inner voice' was often coupled with an attempt to shift responsibility to other social actors operating within the proximal context (e.g., CEO, CFO) or distal environment (e.g., investors). Ralph said "[the CFO and the corporate controller] put together the sales estimate" to imply that he was not in the position to go against their decision. Jack, whose company was engaged in a Ponzi-type scheme, felt that he had left enough clues in the footnotes to absolve himself of responsibility: "Sophisticated investors should be able to read the footnotes and see that […] we are not always in compliance with the terms of the indenture."

The CEO's paternal attitude toward employees (i.e., caring or kind) seemed to motivate a desire in Tom and James to help the company become successful. Tom, for example, drew on the CFO's friendly attitude toward him and his staff combined with the CFO's 'pro-organizational' motive (Umphress and Bingham 2011) to explain his reporting decisions, rationalizing that "It was just earnings management:"

> The CFO was never anything but nice to me and my staff in that matter. He was angry with operations, and he was pleading with us to stay the course and help get the company back where it was. (Tom-Director of Finance)

Narratives on the specific demands of the job[20] indicate that executives were intently focused on accomplishing their reporting responsibilities, shifting attention to immediate goals (e.g., get through the first IPO, find more earnings, or release quarterly reports). The following excerpt, for example, describes the chaos surrounding Ralph's attempt to meet the reporting date:

> Things were out of control and I'm thinking, you know: okay, we're going to miss our reporting dates because we don't know what the heck is going on. (Ralph-Corporate Controller)

The contextual characteristics and individual motivations surrounding our interviewees' conformity or acquiescence appear to have gradually and often imperceptibly caused the steepness of the slippery slope to increase, leading them to compromise their moral agency (Ashforth and Anand 2003). When asked about the first time that they remembered crossing the line, many executives (Bobby, Fred and Ralph) had difficulty pinpointing exactly when they stepped over it. Tom and James still did not view their reporting decisions as criminally wrong and Jack defended his actions by claiming that "It was a tenuous situation."

Accounts of the Clan Culture Imperative

Our analysis suggests that Eric (Corporate Controller) and Henry (CFO) were indoctrinated into a '*clan culture.*' Individuals in a clan culture view their role beyond the simple exchange of labor for salary, willingly making contributions to the core group (like a fraternal group) above what is dictated contractually (Kerr and Slocum 2005). Through socialization processes members of the clan culture identify

[20] The specific descriptions of each position are tied to the executive's reporting responsibilities. It was Jack's duty as a CAO to keep the programs in compliance and move money out of the intercompany account. Fred explained that he had to capitalize expenses to get the company through the first IPO and please Wall Street. Tom said that he had to find reserves to help the CFO manage earnings. James claimed that he had to find legitimate options for his company to meet the EPS forecast. Bobby was told to keep the write-offs under the lowest threshold. Ralph and James had to release financial reports on timely manner or before the competitors.

with the group and internalize its goals, values, and norms as their own, modeling and easily accepting the group's corrupt behavior (Ashforth and Anand 2003; Moore and Gino 2013; Palmer 2012). Henry's decision to participate in fraud from day one seems to have stemmed from his sense of commitment to the core group ("loyalty to the group") and norms within the group ("our own morality within the group") (Moore and Gino 2013), as implied in the excerpt below.

> From day one I was, you know, doing various things […] I did know right from wrong but I was indifferent to it. It didn't matter to me. […] (inaudible). Most people think of crime in terms of economic incentives. You know, the triangle, incentive, opportunity, (inaudible). [Our] incentive of crime was not about economic. It was more about loyalty to the group. (inaudible) within the group, running with the same people you've been dealing with. […] I never thought about it, never had a morality discussion. Ever. Ever. Complete indifference. There was no... no discussion of morality whatsoever. We didn't give a shit. We really didn't care. Morality was for you, not for us. We can say we had our own morality within the group. (Henry-CFO)

According to Eric's account, he started managing reserve numbers upon joining the company based on a shared understanding (Palmer 2012) of "let's find our ways out of this problem." He said "things did start so…somewhat innocently" and "We were going to grow our way out of these problems." These statements suggest that Eric was hired to do *good* things for the core group for worthy ends and considered himself a core group member (Moore and Gino 2013; Murphy and Free 2016; Umphress and Bingham 2011).

Both Eric and Henry used the pronoun "we" more often than "I" in their narratives, indicating that they identified with the core group in pursuit of a common goal (den Nieuwenboer and Kaptein 2008) and that they differentiated themselves from those who were not part of the core group (Moore and Gino 2013). Use of "we" also hints at the extent to which interactions with the group fostered our interviewees' interpretation of their role in the reporting process as they moved toward crossing the line (Ashforth and Anand 2003; den Nieuwenboer and Kaptein 2008; Moore and Gino 2013; Salancik and Pfeffer 1978). Eric appeared to shift his attention to the positive qualities of his role, reinforcing his belief about finding ways out of the problem (Ashforth and Anand 2003):

> […] We were doing a lot of good things […] and growth-wise and all that. We were… we were doing things to… to improve and I truly believed that we would find a way out of this. (Eric-Corporate Controller)

Eric assessed the appropriateness of his reporting conduct by watching others engage in aggressive reporting behavior ("They are doing this worse than we are. So it kind of gets you in that mode of, you know, aggressive…aggressive financial behavior pretty quickly") and by observing auditors failing to critically question the aggressive reporting practices:

> We're being a little aggressive right now but the accounting firms are signing off on things. […] The auditors would look at acquisitions and think, "wow, these guys are so conservative in the way they're booking things," but then they really wouldn't go back the next year and see how we had pillaged the financial statements of those companies, in terms of making ongoing numbers. (Eric-Corporate Controller)

Henry's narratives suggest that he embraced his new identity within the group (Palmer 2012), portraying it as a tight-knit community (with its own goals, values, beliefs, and assumptions) whose members looked after each other and were considered people very close to the CEO (insiders). He also internalized the group's goal ("crime as a meaning of a living"), morality ("never go against the group"), and underlying assumption ("the rest of the world is scum and we are the only people that mean anything"). The use of "we" in the excerpt below illustrates the extent to which Henry identified with the culture (Palmer 2012) and felt connected with the core group (Moore and Gino 2013):

> We decided to commit crime as a means of a living. And we took the positive elements of that community, right, and cohesiveness to make us into more effective criminals. The whole thing is to have only members of the core group doing the main [fraud]. […] You can't recruit an outsider to a [fraud] conspiracy. The rest of the world is scum and we're the only people that mean anything. Never go against the group. […] that's tight knit, that's very, very wary of taking in outsiders, right, where everybody knows each other, where everybody helps each other out […] (Henry-CFO)

While embracing the clan culture, Henry described the fraud as growing from relatively small in scale to falsely reporting the company's earnings before going public and continuing to manipulate earnings even after the IPO. In his words:

> Crime starts small, it progresses very slowly. First you work off the books. Some people say it's not a crime, okay, we'll rationalize it and say it's not a crime. (Henry-CFO)

Accounts of Rational Choice

> They [financial frauds] all started small, and they have to start small, otherwise it doesn't work and then it

snowballs out of control. And I think that's one of the things you have to do. It [fraud] may seem like it's… it's, you know, trivial or benign or whatever the term you want to use, when you first cross the line, but all you have to do is put your toe across the line… then you're in, and once you're in, you're in. And turn around and going back is very, very difficult. (Cam-CFO)

Cam's experience as an auditor at a Big 4 public accounting firm appeared to shape his view of acceptable reporting conduct, paving his way to fraud. He stated, "The whole concept of materiality was really hammered into us and we were… we were taught to be the advocates of our client." As an auditor, Cam once discovered serious issues with the client's internal controls while conducting a computer audit close to the year end. He reported the situation to the audit manager, but two weeks later the client released its earnings report. Another event that shaped his attitude toward financial misreporting occurred when he switched jobs to a private sector company that needed to meet EPS targets for its IPO. Auditors (from his former public accounting firm) helped Cam find more earnings, willfully stretching grey areas in accounting. After the company became publicly traded, Cam prepared the accounting numbers for the first quarter and told the CEO that the company had missed the earnings forecast by one or two cents. Cam described the CEO's reaction as follows:

He [the CEO] screamed and hollered and told us we didn't know what we were doing and he was going to have to hire people who really knew how to do the job. […] you just need to buy me a little time […] can't you fix these numbers? Isn't there something you can go do to fix these numbers? (Cam-CFO)

Cam told us that after meeting with the CEO, he spent the weekend checking the accounts to get the numbers where they needed to be: "I spent the entire weekend checking almost every entry in the books, combing through each account, and figuring out whether or not there is a problem. […] there was enough grey area." This was the first time Cam recalled putting his 'toe across the line,' in what he called a "trivial or benign" manner.

Cam's use of the term "grey area" indicates that he had already assessed the ramifications of utilizing alternative interpretations of accounting regulations. As a self-described risk-seeker, Cam also drew on the words of the CEO: "people will have to work harder to give results, but we need to buy time" and emphasized the company's mission ("be the best in the industry") in rationalizing that the benefit of "helping" the company was greater than the cost of getting caught by the auditors:

I'm a thrill seeker. You know, […] I seek out challenges. […] It really was not that big a deal. […] that first decision was not that big a challenge. I knew I could do, I knew I could get it past the auditors, […]. I believed in what we were doing as a company. I really did believe that things were going to get better. (Cam-CFO)

Cam told us that it did not take long for him to realize that the company could not continue to rely on reserve accounts in managing earnings and that he had to stop the practice. When Cam opposed the CEO, he reacted negatively and played on Cam's sense of pride. According to Cam, it was pride that pushed him to cross the line completely (i.e., commit fraud to cover his lies), as he implied in describing his turning point:

[The CEO] looked at me and looked me dead in the eye and he said, "Are you going to quit?" you going to tell them [wife and kids] that you've been lying and cheating? [He] knew it and so he really played on my… on my sense of……pride […] That was my turning… this was when I realized that it was no longer not material, that…. that we had a problem and that it was not going to be fixed in the short term, that it was going to be a long term fix. […] (Cam-CFO)

In exchange for committing to the fraud (Cialdini and Goldstein 2005; Cialdini et al. 1999), Cam became the leader of the scheme, orchestrating the misreporting activities, recruiting new members, and receiving significant rewards for his increasing role.[21] Nevertheless, he insisted:

I can honestly say that greed never really played a part in my decisions. I think… I think it's more pride from my standpoint and I will always argue that it was never really greed. (Cam-CFO)

Accounts of System Chaos

Complicated and sometimes convoluted technical issues (e.g., segregated information system, ERP system conversion, or obsolete ERP billing system) increased the level of complexity and uncertainty for some executives (Ralph, Jack, James, and Bobby), preventing them from accessing accurate or complete information—i.e., an information-processing deficit. But systems issues also provided opportunities to misreport. In one case, a centralized system that integrated the ERP systems of 50 different reporting divisions made it easier for Tom and other top executives (CEO and CFO) to 'aggressively' manage earnings:

[21] Cam's court records show a disgorgement order of \$10–15 million dollars and a restitution order of \$2–4 million dollars.

> [The integrated information system] just made it that much better and [it] was the tool that gave us the ability to quickly manipulate the data and to put it in different formats and to drill down from one level into the lower levels to do analysis. (Tom-Corporate Director of Accounting)

For these executives, issues with the information system represented contextual factors surrounding their conformity or acquiescence. For Doug, the chaotic situation with a newly implemented ERP influenced his decision-making when he joined the company:

> It [the new ERP system] was dysfunctional from top to bottom. I mean I couldn't even enter orders correctly, much less produce financial statements that I thought were really good. The inventories were utterly out of control. It…a large portion of the inventory was worthless, was held on the books at full value. Accounts receivable was completely out of control…It was just, it was just a mess. (Doug-CFO)

It took a while for Doug and his team to realize just how bad the situation was regarding errors left in the newly converted ERP system and on the books. Meanwhile, they could not rely on nor even understand the numbers that the new system generated. Doug's reaction to the chaotic situation was to try to figure out the magnitude of the "rot" (problems with inventory and receivable records), focusing his attention on gathering information ("from plant to plant and go manually") and attempting to fix the problem ("It went from nothing to, to real effort to fix it"). His inability to readily estimate the amount of rot was exacerbated by general managers who kept information to themselves. Doug's narrative suggest that that his attempt to fix the system chaos problem hindered his ability to assess and solve the gravity of the reporting issue, inadvertently leading him to achieve a different wrongful objective—delaying write-offs over time. Doug said:

> In retrospect if I had known about [the magnitude of the "rot"] earlier I would have asked that we take a charge immediately for the previous year and write the whole mess off at once. (Doug-CFO)

Doug indicated that the situation with corporate headquarters added more complexity to his decision-making because the CEO and CFO were focused on managing earnings rather than helping Doug to assess and fix the situation. In his view, it was "us" against "them," as implied in the excerpt below:

> They [the corporate CEO and the CFO] started trying to manage for earnings per share while we were uncovering and trying to remedy years and years and years of bad accounting and bad management, and the two were utterly incompatible. (Doug-CFO)

So, when it came to the question of crossing the 'line,' Doug denied wrongdoing: "We [Doug and the president of the business unit] never knowingly prepared information that we didn't believe to be reasonably accurate." He also emphatically denied having any role in earnings management and receiving any direct request to fabricate numbers:

> They never asked me to produce a number, okay. But they were very unhappy when the number we produced was not what they thought it should be, okay. I never received a request to change them…not, not directly. (Doug-CFO)

Discussion

From the interviews of our C-suite participants, we identify five types of narrative accounts through which the executives constructed their vocabularies of immersion into financial misreporting—attaching "meaning" to their decision to become involved in fraud. The five types are the "working accounts" or the "social building blocks" (Holstein and Gubrium 2003) representing what these participating executives said they experienced *after the fact*. Their narratives typically describe a series of decision events, other social actors' attitudes and behaviors, and the surrounding contexts in which the interviewees found themselves, inclusive of self-motivations. Implicit in their construction of meaning is the interplay among influential micro-sociological factors (Berger 2011; Morales et al. 2014; Sutherland 1937), broadening our understanding of financial reporting fraud beyond that offered by the more individually focused fraud triangle model (Trompeter et al. 2013).

The executives who offered narratives or accounts describing *Social Cues* drew on their sensitivity to, or an automatic reliance on, proximal social information to explain their attitude and behavior toward misreporting acts (Moore and Gino 2013; Salancik and Pfeffer 1978; Palmer 2012). Accounts of *Social Conformity or Compliance* portray executives' failure to act upon their inner voice (Moore and Gino 2013; Schuchter and Levi 2015), compromising their position in supplication to other social actors. Two executives, whom we associated with the *Clan Culture Imperative*, were driven by a perceived close-knit community (family and friends) and identified with the core group and its values, with one disengaging himself from 'morality' as viewed by outsiders (or the society) (Bandura 1999) and the other assessing the legitimacy of his reporting behavior by reference to other companies aggressive reporting practices and the auditor's failure to question the numbers. The Accounts of *Rational Choice* describe an executive weighing the costs and benefits of engaging in questionable financial reporting for pro-organizational goals (Umphress and Bingham 2011), who justifies crossing the line because of 'pride' in behaving consistently with prior reporting actions (Cialdini and Goldstein 2005). Accounts of *Systems in Chaos* reflect what Palmer (2012) labels accidental wrongdoings, occurring when "task environments are unnecessarily complex, needlessly increasing information collection and processing demands, and when conditions prohibit [individuals] from making full use of their cognitive facilities" (p. 214). While lacking the socializing context underlying the other four accounts, deficient information systems provided an environment enabling some executives to take advantage of technical limitations.

The financial executives typically attempted to make sense of their misreporting behavior within a financialized corporate environment, driven to maximize capital or minimize the risk of losing shareholder value (e.g., Cushen 2013; Davis and Kim 2015; van der Zwan 2014). The encroachment of Wall Street in setting reporting goals (e.g., meet or beat EPS forecast) was, to a greater or lesser degree, a pervasive part of everyday corporate life (Davis and Kim 2015; Ezzamel et al. 2008; van der Zwan 2014) prioritizing the discursive construct of shareholder value over other stakeholders' interest (Cutler and Waine 2001; Slater and Spencer 2014; van der Zwan 2014). The interviews of our participants also include accounts of financial elites (i.e., investors, analysts, and Wall Street) effectively functioning as co-authors of company narratives calculated to affect estimates of firm capital (Cushen 2013), creating a loop where executive leaders manage inflated expectations with external financial actors (Graham et al. 2005).

Accounting metrics such as revenues, EPS, or stock prices served as a 'central objective' of the companies in which our interviewees were employed, offering a compelling social discourse for their top leaders to justify 'productive' activity that privileges shareholder value (Ezzamel et al. 2008) and to shift financial executives' mentality to 'manufacturing' profits for investors or Wall Street (Cutler and Waine 2001; van der Zwan 2014). Elliot's quote that "You cannot say no to corporate calls for dollars," for example, reflects the constitutive role of the dominant ideology in shaping the mindset of our participating former executives. Trapped in the exchange of "a malleable social rhetoric" between financial actors and top leaders (Gleadle and Cornelius 2008, p. 1221), executives gradually found themselves co-participating in a vicious circle of 'making the numbers,' thereby corroborating increasingly unrealistic predictions. Ambiguity with accounting rules or grey areas rendered sufficient legitimacy to misreporting actions (Newberry and Robb 2008) by executives under accounts of *Social Cues* and *Rational Choice*, achieving a 'reality' desired by top leaders while securing their position. Executives' identification with their organizational role, the desire to be successful or to help the company succeed, and even pride served to induce executives to engage in accounting fraud in order to meet corporate financial targets.

The desire to please others and/or the need to keep the job often intersected with a corporate atmosphere that elevated the negative consequences of missing targets (Ezzamel et al. 2008), compelling financial executives to conform to reporting demands made by their leaders. A need or aspiration by some executives to fit in and be liked or accepted by others (peers and superior) indicates that crossing the line was sometimes an attempt to build a relationship with important social actors, producing a positive psychological benefit (Moore 2009). Quotes such as "I figured that if you didn't do what you were told to do that you would be gone," "I can't think of any time I said no to the CEO," and "I don't really have a position up here anymore" highlight executives' resource-dependency (Emerson 1962). The perceived threat of unemployment or a ready 'reserve army of labor' (Marx 1976), a tactic sometimes used to diminish employees' bargaining power, (Cushen 2013; Gleadle and Cornelius 2008; Ezzamel et al. 2008; Slater and Spencer 2014), reinforced the peril of non-acquiescence.

A background of rapid expansion increased the level of complexity and uncertainty for executives under accounts of *Social Conformity or Compliance*, leading them to place greater reliance on exploiting 'grey' areas inherent in many accounting and reporting issues. In Accounts of *Systems in Chaos*, it was the disordered situation with the ERP system that predominantly shaped one executive's decision-making, shifting his attention away from assessing the ramifications of his reporting choices while coping with corporate leaders' pressure to meet the EPS forecast.

With one exception, the narrative accounts emphasize our participants' gradual and often unrecognized socialization into fraud. The executives' narratives on their gradual immersion into fraud are consistent with the incremental model posited by Ashforth and Anand (2003) and the process model of Palmer and Maher (2006). Collectively, the accounts suggest that executives were often seduced or drawn into fraud as a result of the connectedness amongst individual motivations (micro-factors), contextual characteristics (e.g., accounting rules and accounting information system) and the attitude/behavior of proximal or distal social actors (sociological-factors) that gradually and often imperceptibly caused the steepness of the slippery slope to increase (Chugh and Bazerman 2007), or to use Cam's (CFO) analogy, slowly turns up the heat until the water is boiling.

As one executive noted, "I knew that there was some parts of it that were wrong, I just didn't know how wrong it was." This quote suggests that ethical decision-making was no longer based on clear definitions of right or wrong, but malleable between 'acceptable wrong' and 'unacceptable wrong' in the name of meeting the numbers. The incremental progression of increasingly questionable reporting by our executives under the miasma of grey accounting may explain why many participants had difficulty remembering or pinpointing the moment when they crossed the line, even prompting denial of wrongdoing for a few participants. Narratives suggesting difficulty remembering or pinpointing when the line was crossed or a denial of wrongdoing suggest the state of 'self-deception' posited by Tenbrunsel and Messick (2004), who argue that individuals can self-deceive if they are not critical of their judgments and the motives driving their actions. These findings echo other white collar criminals' reflections on crossing the line (Bourtin 2017; Soltes 2016). In a similar vein, our analysis suggests that a person working in the chain of financial reporting may meet 'the fate of the frog' (Senge 2006, p. 23) if he fails to critically question the actions of other social actors and the financialized rhetoric of top leaders.

The ways in which different micro-sociological factors come together in the executives' narratives is contingent upon the influences that the interviewee finds particularly meaningful to his experience in fraud involvement. Factors become meaningful when the executive makes sense of his journey in light of what he has experienced (Schutz 1967) or finds them acceptable justifications for his past acts (Mills 1940). Because meanings are unique to each participating executive's reflections or verbal attributions after the fact, we do not attempt to systematize how micro-sociological factors interact. It is important to note that the micro-sociological factors identified in this study represent influences that our interviewees reflectively attended to and placed meaning upon, but they do not embody all factors contributing to executive-level financial statement fraud. Our findings, however, provide us some grounds to argue that the processes by which financial executives move down the slippery slope are complex and multifaceted.

A recurring contextual characteristic across the interview narratives of our C-suite executives is the role of the external auditor, who sometimes indirectly enabled or provided approval of their misreporting. One executive implemented a dubious but favorable reporting recommendation made by the audit partner and another calculated the risk of using reserves to increase earnings, presciently envisaging the auditors' passive reaction to his misreporting. Six executives reinforced their beliefs about the appropriateness of questionable accounting when auditors failed to discover it and signed off on the financial reports. One participant, a former auditor, made sense of his corporate reporting role by mimicking the behavior of a past audit partner who he had observed blurring the line between objectivity and advocacy in negotiating adjustments with clients. These findings collectively suggest that auditors, serving as social control agents in the reporting setting, must be careful not to embolden current or future perpetrators with uncritical examinations or model inappropriate reporting behavior by 'inadvertently' shifting the line of acceptability to a different location (Palmer 2008).

It is noteworthy to point out that none of the executives' narratives, except one (Tom), contained expressions of responsibility, or feelings of empathy or remorse, for the victims of the fraud and the injuries caused by their actions. The apparent failure amongst the other 12 executives to recognize the harm of their actions seems to stem from the incremental nature of financial statement fraud and the support they received in their immediate social context. As the fraud was occurring, positive results such as the company meeting its earnings targets were clearly identifiable and may have diverted their attention away from the negative consequences of their reporting decisions. Consistent with our findings, Soltes (2016, pp. 115–129) argues that financial crime perpetrators likely view their misreporting conduct positively as they receive affirmative reinforcement until the deception is revealed. By then, it is too late for the executives to comprehend the magnitude of harm caused by their misreporting conduct.

Conclusion

This research addresses calls for gaining insight into "how fraud is committed" (Morales et al. 2014, p. 177), "how [accounting] fraud is experienced by [executives] involved" (Cooper et al. 2013, p. 441), the immediate "socio-structural context" in which fraud takes place, and the self-motivations of perpetrators (Free and Murphy 2015). In doing so, our findings collectively suggest that accounting and auditing research should broaden its characterization of fraud away from individualistic explanations (Cressey 1950, 1953; Wells 1997) to 'micro-sociological' perspectives (Berger 2011; Morales et al. 2014; Sutherland 1937). Very few studies (Donegan and Ganon 2008; Free et al. 2007) have identified societal pressures and contexts as causes behind the emergence of corporate cultures that foster misreporting conduct. Our study adds to this emerging stream of research and expands our understanding of the interplay between micro- and sociological factors in the context of a financialized corporate environment (e.g., Cushen 2013; Ezzamel et al. 2008; Slater and Spencer 2014). We also find specific evidence that fraud can be the result of "accidental wrongdoing," supporting Cooper et al.'s (2013) contention that "there has been little recognition of the possibility of accidental or unintentional fraud in the accounting and audit literature" (p. 443).

Our study stands in contrast to and extends the findings of Graham et al. (2005), whose interviews of CFOs describe earnings management as a process that stems from real economic actions to produce or smooth earnings and meet benchmarks while staying within the permitted boundaries of GAAP. Our interviewees' applications of earnings management, however, were much more aggressive, relying on the ambiguity of accounting rules to disconnect real economic performance from reported earnings. It is noteworthy to mention that, unlike the CFOs of Graham et al. (2005) who regarded their compensation as "a second factor, at best, for exercising accounting discretion" (p. 28), the participating executives of this study rarely talked about compensation or financial incentives when they reflected upon their experiences in perpetrating fraud. This suggests that micro-sociological factors rather than financial compensation primarily facilitated the immersion of our executives into accounting fraud.

We acknowledge several limitations of this study. First, it is difficult to ascertain whether our participants' accounts represent what interviewees actually did, perceived, and/or felt when they crossed the line. However, we believe that the time and effort it took us to convince executive fraud perpetrators to participate, as well as the measures taken in this study to verify the accuracy of the interview transcripts and findings, mitigate these concerns and provide some assurance of the trustworthiness of the data (Ahrens and Chapman 2006; Miles and Huberman 1994). Second, findings of this research must be interpreted with caution because of the selection process we used to contact the participating executives and inherent self-selection bias. We used the U.S. SEC Litigation Releases and the SEC Accounting and Auditing Enforcement Releases from 2000 to 2006 to locate and contact former executives who were involved in accounting fraud cases. Our participating executives became involved in accounting fraud before the enactment of the Sarbanes–Oxley Act (SOX) and received final judgments after SOX. As a result, our findings may not apply fraud perpetrators who were never caught or who became involved in fraud after SOX. Future research can gain insights into the effect of SOX on the sense-making of post-SOX fraudsters by conducting a comparative analysis between the narratives of pre- and post-SOX accounting fraud perpetrators. Third, our analyses of the executives' accounts suggests that the brashness and confidence usually attributed to many of the most famous fraudsters (Lease 2006), including Bernie Ebbers (WorldCom CEO), Ken Lay (Enron CEO) or Andy Fastow (Enron CFO), does not correspond to the more reserved attitudes of our participants. This difference may result from the sampling biases described above. Despite these limitations, we anticipate that our findings can benefit management, directors, audit committee members, and auditors in raising awareness of how corporate financial executives' can become embroiled in accounting fraud.

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Compliance with Ethical Standards

Conflict of interest The authors declare no conflict of interest with the institutions that have provided research grants/funding or awarded this study.

Ethical Approval All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

Informed Consent Informed consent was obtained from all individual participants included in the study.

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