The 'Causes' of Corporate Crime

Steve Tombs describes some complex factors behind corporate crime.

In February this year, Jeff Skilling, the former chief executive of Enron, the global energy company and the seventh largest company on the Fortune 500 list, surrendered himself to the FBI to face 42 charges of fraud, insider trading and giving false statements to auditors’ list. Since 1997, senior management across the company had been fraudulently managing and reporting its accounts, inflating revenue, hiding debt, and massively hiking up its share price. Skilling is the 28th individual to be charged so far.

In August 2001, Skilling had been voted the second best chief executive in the US, while Enron was the country’s ‘most innovative’ company for six years (Fooks, 2003). Yet Enron stock had fallen from a $90 peak to 26 cents within fifteen months (Fooks, 2003); on December 2, 2001, it filed for bankruptcy. Though Enron’s collapse was spectacular, it was immediately preceded, then followed, by a host of other massive corporate frauds, with the collapse of WorldCom quickly surpassing Enron as the largest bankruptcy in US history (Fooks, 2003). Throughout the 1980s, about six companies a year filed corrections to the Securities and Exchange Commission on the discovery of a ‘mistake’ in previously returned accounts; in 1999, 204 were reported, and after Enron and WorldCom, over 400 companies were expected to submit corrections for 2002 (Hetzler, 2003). It appeared that “corporate America had been laid waste by deception, false accounting and bankruptcy” (Fooks, 2003).

We do need to take account of individual characteristics, not least in terms of the kinds of personalities that are recruited or promoted within the corporation.

Enron may not be a typical example of corporate crime. Certainly, financial crimes may involve a degree of conscious planning absent from some other categories of corporate offending – against consumers, employees, and the environment (Tombs, forthcoming). However, Enron serves as a useful, concrete reference point to address the causes of corporate crime – these most usefully considered at the centre for crime and justice studies.
illegality became routinised and almost impossible to detect: at the time of its bankruptcy, the firm had 1,300 foreign entities on its books, some 80% of which were inactive shells (a third in the Cayman Islands). More generally, understanding the production of corporate crime means knowing something of a corporation's organisational structure, its internal lines of decision-making and accountability, its geographical scope of operations, and the nature, volume and complexity of internal transactions. Lastly, there are key questions to be broached regarding wider economic, political and social contexts. Amongst these are: the nature of the market(s) in which a company operates; the material and ideological state of regulation; the nature of state-business relationships; and the dominant form of political economy, and concomitant societal values, including the nature and degree of pro- or anti-business sentiment. Crucially, Enron can only be understood in the context of a particularly vicious form of capitalism, fostered by deregulatory, pro-business neo-liberal governments on both sides of the Atlantic. It is a form of capitalism captured in the persona of Gordon Gekko, the corporate criminal of sharp suits and loose morals portrayed by Michael Douglas in the 80s film Wall Street, a trader whose key-phrase was itself a leitmotif for the eras of Reaganite and Thatcherite indulgence – "greed is good".

Indeed, it is important to emphasise generalised corporate illegality here. For Enron could not have committed its crimes in isolation. Arthur Andersen, one of the so-called ‘big-four’ accountancy firms, went bust following disclosure of its systematic complicity in the commission then concealment of Enron’s scams. Amongst what amounted to virtually all of Wall Street’s leading investment banks, two so far, JP Morgan Chase and Citigroup, have agreed to financial settlements (a combined $255m) to offset charges that they conspired with Enron in its frauds. What is clear is that we are not talking here about a rogue company, or a bunch of maverick individuals at its head. Enron – and other Enron-style crimes – indicate not the existence of a few rotten apples, but tell of a systematically rotting barrel.

Even presented in outline here, the above represents an extensive and complexly related set of factors. Explaining corporate crime requires reference to a wide-ranging explanatory framework incorporating variables from micro, meso and macro levels. Moreover, to do so we need an approach that spans criminology, criminal justice and socio-legal studies, but extends beyond, from organisational and management studies through to political economy. In short, corporate crime defies simple causal explanation – a characteristic it shares with conventional crime.

Steve Tombs, Liverpool John Moores University.

References