



Media's reportage of corporate frauds - An review

KEYWORDS

Media, Corporate fraud, detection, literature review

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ABSTRACT *Media in all its forms and means has an unquestioningly important role to play in all spheres of life. This paper synthesizes existing research on the role of media in the detection and reportage of corporate frauds. By drawing upon prevailing works that have critically looked at media and its different facets as a watchdog, an agenda setter and as an upholder of corporate governance, the paper reviews media's role in the context of corporate actions. It adds a new dimension to current literature on media and its potential in complimenting the role of the regulators and the enforcement agencies in the detection of fraud. The methodology that has supported the paper has been review of substantive findings, theoretical and conceptual works that have studied the role of media in different settings. Diverse literatures on the role of media with specific reference to fraud in the corporate sector have been reviewed. Towards the end the paper puts forth arguments calling upon media to expand its role from being just an information provider to an active player in fraud detection and prevention.*

Background

Academic research has shown that corporate frauds destroy shareholder's wealth, hurt the market sentiment, topple the stock prices and have a long lasting impact on the health of the economy (P.K Gupta & Sanjeev Gupta, 2015). Be it misappropriation of assets, accounting fraud or cases of money laundering, corporate crimes happen at periodic intervals inviting the attention of the media, the regulators and the public at large. There is a growing evidence (The Global Fraud Survey, 2016), (Deolitte, 'India Fraud Survey, 2014), (KPMG, 2016) pointing out to a high incidence of corporate frauds in India. While the regulatory framework and the penal provisions prescribed in the Companies Act, 2013 intend to work as an effective defense against the occurrence of corporate fraud, yet fraud prevention and detection can be further augmented with stakeholder intervention. Media is an important stakeholder in the dissemination of information. Media, both print and electronic has at times been a contributory in exposing, investigating and creating awareness of about corporate frauds, leading to corrective action against the defaulting companies. The present study is the critical appraisal of the role of media reportage in the prevention and detection of corporate frauds in general by drawing upon the existing literature and revisiting the relevant theories. Diverse literature on the role of media with specific reference to fraud in the corporate sector has been reviewed. The objective of the paper was to assess the extant and premier literature on the role of media is corporate fraud detection, prevention and reportage. While there is a wealth of literature on media and its impact on societal, political, ethical and governance issues, only select works has been reviewed to gather evidence for media's potential in the detection and deterrence of corporate frauds.

The case for media Coverage of corporate fraud:

Speaking at the 10th Corporate Governance Summit (2015), U.K Sinha, Chairman, SEBI stressed on the role of media in disciplining the directors of the company to behave according to societal norms. Media pressure has the potential to frame public opinion which can be used to check deviations of the company management from accepted norms. Stakeholders including institutional investors, small investors and the others benefit from the presence of an active press to bring in transparency and promote corporate governance (Sinha, 2015).

There appears to be a strong case for media coverage of corporate actions. Studies conducted elsewhere (Levi, M. (2006)) stress on the significance of media reporting of frauds in shaping up discourses and framing public perception on an issue. Media coverage of instances of fraud and corruption translate into both tangible and

intangible benefits. While tangible or visible benefits are those which are measurable and can be quantified, intangible benefits can be perceived and their results can be seen over a period of time. (Tareq, 2012). Tareq (2012) studied the role of media in combating corruption in Bangladesh. The study concludes that although media is perceived by the public as an effective mechanism to check corruption, yet it has not been effective as required to bring significant impact. Interestingly however there is a strong notion among the masses about the media as a powerful watchdog and the fourth estate. Tareq (2012) concludes that media can create anti-corruption symphony by fashioning a democratic culture among the public.

Similar observations have also been made by Stapenhurst (2000). Stapenhurst (2000) affirms that the visible benefits of media reporting with specific reference to corruption include launch of investigation and judicial proceedings, resignations of corrupt officials amongst others. The intangible benefits of media's reportage on corruption or fraud include creating a sense of awareness, transparency, accountability, empowerment and education among the masses.

Media's role in checking accounting fraud has also been studied by Dyck (2008), Dyck et al (2010) and Miller (2006). Across, there appears to be consensus on the role of media in placing pressure on the company management, drawing the attention of the regulators, consumer forums and investment funds to instances of frauds in the corporate sector. Miller (2006) and Bushee et al (2010) also document the role of the press as an information intermediary in the financial markets. Cohen et al (2010) maintain that the press can progress beyond the role of a mere infomediary by providing its own information through its own investigation and analysis thereby being a value provider to the readers.

There appears to a growing conviction which is well documented about the role of media in shaping corporate policies and agendas. Through extensive coverage of business issues, business media penetrates and shapes corporate activities by setting up corporate agendas. (Carroll, 2010; Carroll and McCombs, 2003). Testing the influence of business media in showcasing CSR, the work of Grafström, Maria, and Karolina Windell (2011) conclude that business media acts as an infomediary linking CSR to certain corporate activities and thereby developing the construct of what CSR means in corporate practice. These works put together signal the thought that if the media chooses to pursue an issue it can be the game changer and a mechanism for reform.

The work of Coronel (2008) summarizes the 'Watchdog' role of the media. The study offers policy recommendations in strengthening media's capacity in promoting good governance by guaranteeing editorial independence to the press, protection of the journalists while calling upon the press to abide by high ethical and professional standards.

Role of media as a whistle blower

An investigation into the role of media in corporate fraud detection conducted by Dyck and Zingales (2010) reveals that contrary to the popular notion that conventional actors of corporate governance including the regulators, investors and auditors are more likely to blow the whistle on fraud, non-traditional actors like media, employees and industry regulators have played a key role in fraud detection. The study further empirically asserts that journalists who have detected fraud have been awarded with positive incentives in the nature of career advancement which acts as an incentive to blow the whistle on fraud.

However it appears that media has not fully explored its potential as a whistle blower of fraud. A host of factors are responsible for this as explained by Clem Lloyd and Paul Walton, (1999). They assert that with the enhancement of technology while there has been a rise in the volume of fraud, there has been a corresponding decline in the financial reporting of the fraud. This they say could be attributed to increasing trend towards market driven journalism, where the fourth estate and the watchdog role of media is seen as not selling in the market and is therefore not encouraged. The study further states that stringent defamation laws in the UK deter journalists from pursuing investigations to detect fraud. Owing to all these factors media reportage limits itself to coverage of the fraud once it has been uncovered rather than act as an early warning mechanism thereby diluting the power of media.

Media reportage of corporate frauds- In the Indian setting:

Media has played a significant role in the Indian democracy. The freedom of speech and expression guaranteed to every citizen of the land is also extended to the media in all its forms. Albeit constitutionally there is no demarcated role assigned to media in governance and media does not have the sanctions to interfere in the functioning of the legislature, executive and the judiciary, yet media is the invisible hand responsible in strengthening the voice of the public. (Chowdhary, 2014). The CII Task Force on corporate governance recommends that media, especially in the financial analytics and reporting business should invest more in analytical, financial and legal rigour and enhance their capacity for analytical and investigative reporting.

Studies confirm that media can be an activist among the shareholders, consumers and the general public through proactive media campaigns with respect to corporate decisions. (Das, 2011). The study emphasizes that media in India with the backing of an enlightened readership, matured democracy, enhance transparency amongst others factors can work as the most compelling force in deterring corporate frauds. The study reflects upon some powerful media attributes in terms of collating and diffusing critical information about companies which can shape opinions and participation from all the stakeholders.

Conclusion:

While there appears to be a wealth of literature on the role of media in combating corruption and promoting corporate governance, media's role in the detection, coverage of corporate fraud has been scant and has remained unexplored. Much of the existing works point out to media role in framing public opinion and fostering activism. Across there appears to be little evidence regarding media's role in fraud detection. There is unanimity of opinion on the potential of media in this direction.

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