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SPEAKERS

Fiona Chan, Jenn Tostlebe, Jose Sanchez



Jenn Tostlebe 00:14

Hi everyone. Welcome to The Criminology Academy podcast where we are criminally academic. My name is Jenn Tostlebe.



Jose Sanchez 00:21

And my name is Jose Sanchez.



Jenn Tostlebe 00:23

And today we have Professor Fiona Chan on the podcast to talk with us about corporate crime routine activity theory and guardianship.



Jose Sanchez 00:31

Fiona Chan is a former public accountant and current Assistant Professor of Criminal Justice at Indiana University Bloomington. She received her PhD from the School of Criminal Justice at Michigan State University in 2022. Her research interests concentrate on various forms of white-collar and corporate crime, including financial fraud, bribery, and corruption and the intersection of technology and crime. Fiona's dissertation was funded by the National Institute of Justice, and she has published in *Criminology*, *Crime, Law, and Social Change*, and *Trends in Organized Crime* among other places. It's a pleasure to have you on the podcast. Fiona, thank you so much for joining us today.



Fiona Chan 01:10

Thank you for having me. the pleasures all mine

Thank you for having me, the pleasure all mine.



Jenn Tostlebe 01:12

Alright, so today we are going to talk with Fiona about routine activity theory, corporate crime, and then a paper that combines these two ideas called "When Guardians Become Offenders: Understanding Guardian Capability through the Lens of Corporate Crime". And then time permitting, we'll wrap up with a question on interdisciplinary research. So Jose, why don't you kick us off?



Jose Sanchez 01:37

Okay. So, before we really get started on talking about, like your paper and other substantive topics, we want to ask a question, we usually reserve this question for our reflection series. But when we were kind of prepping for this episode, we noticed that your background is like, so you did your undergraduate degree and your master's in accountancy. And like I mentioned in your introduction, you were an accountant before you became a criminologist. And so we really wanted to ask, because we're curious, what made you switch careers? And how do you go from a public accountant to become a criminologist?



Fiona Chan 02:17

Yeah, I had a little bit of an odd career path, right? That shows you how you can plan everything in your life and nothing really turns out. But yeah, when I was a public accountant, you know, I was exposed to a lot of fraud cases. So financial fraud cases. And eventually I started asking questions about, you know, these offenders have so much to lose. Why do they risk it all, right? And then I kind of did my own research into criminological theories and a whole host of criminological theories that I haven't been exposed to as an accountant. So I was very interested in that. And I randomly reached out to a professor at Cincinnati, I was in Ohio at the time, and asked about that, and asked about all these, you know, theories. And that's really what got me thinking. We as accountants, and as criminologist, we're both trying to solve the same problem. But it turns out that we never really talked to each other accountants know nothing about criminological theories. And a lot of criminologist don't know anything about accounting structures or financial structures. And so I thought I would be the perfect person to kind of bridge that gap. Right?



Jenn Tostlebe 03:36

Yeah, it's so cool, especially with you know, what we're talking about today, I was just really interested because I feel like it is very unusual to see someone go from being an accountant to going back to school, getting degrees and becoming a criminologist. So it's just really neat that you have kind of that background experience that I'm sure really helps your research. Yeah. All right. So speaking of theory, one of our core topics today is based in theory, and we want to start off, like super broadly, just to give people who aren't familiar with this kind of an idea of what we're talking about. So in brief, can you tell us about like traditional routine activity theory and kind of its core concepts?



04:21

Sure. So routine activity theory is a victimization theory right posited by Cohen and Felson in 1979. And there was aimed to explain the changes in crime trends with the changes of people's day to day routine activities, right? And there is a central premise to this theory, which states that in order for a crime event to occur, three things needs to happen, right? There needs to be a motivated offender, there needs to be a suitable target, and there needs to be an absence of a capable guardians, and all these things need to converge in time and space for crime to happen, right? And this whole idea of routine activities theories have inspired a whole area of situational crime prevention, because, as posited by Cohen and Felson, that the lack of any one of these elements is sufficient to prevent a successful completion of a crime. Right?



Jose Sanchez 05:23

Right. I will say this is one of my favorite theories. I love routine activity theory. And I love that the initials are RAT. So I just call it RAT.



Jenn Tostlebe 05:33

You used it for your comps, right?



Jose Sanchez 05:35

Yeah, yeah. But so we want to get into this idea of guardianship. And so first, we want to start off kind of, you know, basic, but how was guardianship defined by Cohen and Felson?



Fiona Chan 05:49

Okay, I think the initial definition by Cohen Paulsen was rather broad. They called it supervision that may prevent crime. So that's, that's a rather broad definition, right? Because this conceptualization is so broad. It's popularly thought of as like a general theory that applies to most crime, right? But that leaves a lot of room for interpretation. Is guardian an individual, like a manager or employee guarding the merchandisers of a store? Or is a guardian more like an object like a CCTV or a padlock? Right? Or is it a process that makes access to the target more difficult, right? Can we define guardianship by their goals? Are guardians protecting themselves or another person or, or target? Can guardianship be an unintentional, right? How about defining guardians who are by who or what they're guarding? There's a whole literature and out there that talks about controllers, right? Who are basically guardians of each of the routine activity elements we talked about. So basically, another triangle over the original crime triangle where the targets are controlled by guardians, the offenders are controlled by handlers and then the locations are controlled by place managers.



Jose Sanchez 07:20

Yeah. And as it really sounds like one of your bigger issues with this is that what are the

yeah. And so it really sounds like one of your bigger issues with this is that what exactly a guardian is, seems to be very vague, and not very, I guess, well defined by Cohen and Felson.



07:35

Right. Alright.



Jenn Tostlebe 07:36

So speaking of that, you know, most of my schooling on routine activity theory is really focused on this idea of the presence of a guardian, which you mentioned, when you were defining the traditional theory. So, for example, and you just listed out some of these but a police officer on the street or surveillance sign in our yard, or even a camera, you know, even if it's not plugged in, and just the presence of a camera. And so this is consistent with routine activity theory. But in your paper that we're going to talk about, you know, you argue that it's not enough, basically. And so what does this focus on the presence of a guardian neglect to consider?



Fiona Chan 08:17

So this to me, first of all, we got to step back a little bit right and think a little bit about the role of guardianship, as described by Cohen and Felson, right? Guardians are there to kind of deter a motivated offender, right? So in other words, they're there to change a potential offenders risk calculation and risk assessment. So there is a rational choice foundation to routine activities theories, right? So, we know that risk calculation is not static. It's kind of dynamic, it can change over time, right? So what if I were a burglar and I was initially deterred by this surveillance camera or a watchful neighbor, right? But after watching this home for a while, I realized that while the cameras not always turned on, like you said, right, and the neighbor doesn't seem like the type who might intervene, then maybe my risk calculation has changed based on my perception on how credible the threat is, and how capable that guardianship structure is. So by focusing on the present, we neglected to consider the offender's perception on how capable the guardian is, and how credible that risk is.



Jenn Tostlebe 09:35

Yeah, that idea is really, really interesting to me. And I think I read that section of your paper a couple of times, because I just found that really interesting. And so, I was thinking about this, you know, thinking about the teenager who wants to beat someone up at school or so says let's go outside after school or someone who wants to steal clothes, like one of my questions is, do you think this notion of capability or affectability? I'm blanking on the word you used, but of a guardian to prevent crime really matters for all types of crimes? Or would this idea be more important for specific types of crimes?



Fiona Chan 10:17

I think in my paper, I kind of show that it's rather important for corporate crime. The example I gave is on burglary. So street crime. and I think it has more general utility than just several

types of crime, just because when we talk about routine activities theories, we always draw this triangle, right, and we put target guardians offender on the triangle, maybe it's because there's lack of space, and we can only write so much. But we also forgot about the adjectives that come with target, you know, a suitable target, right? And then guardians, a capable guardians. Right? So when we know that crime has, you know, everything in criminal justice is so difficult to measure? So we often measure one part of it we've measure, you know, guardians, is there a guardian? Or is there not a guardian, right? But we forgot about measuring the capable part of capability.



Jenn Tostlebe 11:17

Yeah, I guess maybe I was more going to like those spur of the moment crimes, you know, that happen without perhaps doing this whole reflection or decision making process. And just trying to figure out if this notion of capability would apply to those as well. Or if just because of emotion and whatever else, it may be, when applied to as much of a degree as something that's more planned out or not necessarily planned, but thought through more.



Fiona Chan 11:46

That's an interesting side, because if you don't have the time to make those risk calculations, can you assess properly assess how capable the guardian is? Right? Right? Yeah, would be an interesting collaboration project.



Jose Sanchez 12:00

Yeah, I had a similar question to you, as you were talking about it. I was like, Well, how often do people like, sit there and like, scope out houses? But I also think, like thinking back, like, a lot of people don't stray that far, right, from, like, places that they're comfortable from committing crime. And so it might, I don't know, I think in some cases, it might seem like it's a spur of the moment. But if you know, like that area fairly well, you can start to develop a sense as to what is actually happening, right, like, like thinking back to when I was a kid, there was always this liquor store, like two blocks away, that had a security camera. But after a little while, we all basically knew that that camera was bunk, like it wasn't plugged into anything. So at that point, we all kind of knew that, well, the cameras not actually doing anything. So yeah, but I think it would make for a great, really, we might have to edit this out, because we don't want people stealing our idea now. I think we just came up with a paper.



Jenn Tostlebe 13:05

And also you just admitted to like crime. So...



Jose Sanchez 13:11

I said we'd knew the camera didn't work. I didn't say anything. But I very much plead the fifth here.

F

Fiona Chan 13:22

But yeah, but also what I think about situations where offenders, like they probably weren't offenders, they weren't planning on committing a crime or anything. But an opportunity arises and sometimes maybe lacks guardianship creates that opportunity. Right. What do they say about like kidnappings? Right? Then they say something about kidnappings usually are perpetrated by people you know, right? Yeah. And so you see an opportunity and, you know, the family or you know, the children or whatnot, like, you know, their situation. And it's easier, like in your mind, like you're more familiar, the risk calculation is lower, because you're more familiar, right?

J

Jose Sanchez 14:12

Yeah. Yeah. I want to say that our episode with Joan Reid on human trafficking, kind of touched on that a little bit. But okay, so I think we've set up a good foundation to start moving into your paper. And so we've actually had a couple episodes related to white-collar and corporate crime. We've had absolute Sally Simpson, Wim Huisman, and Jared Joseph. And based on those episodes, in this particular case, along with that we did with Sally Simpson, we know that there's like this definitional debate regarding how to define white-collar crime. And like, I mean, you could really say that about criminology in general, our definitional debates. But given our focus today on corporate crime, how do you define corporate crime and how does it maybe differ from white-collar crime?

F

Fiona Chan 15:04

Let me just start by saying that I am kind of sick of this definition debate. I'm not gonna lie, it is a problem. But it also, I've also adopted the approach where I just say, this is the crime I'm gonna look at and, you know, follow through from there. So, the way I define corporate crime in the paper as its broader, and corporate crime has been defined in many different ways, but I see it as a kind of subcategory of white-collar crime, because white-collar crime is such a broad umbrella. And corporate crime we're talking about and I adopted Braithwaite definition and he said corporate crime is the conduct of a corporation or of employees acting on behalf of a corporation, which is proscribed and punishable by law. So corporate crimes include, really criminal law, civil law, administrative law, corporations are considered as legal persons in the eyes of the law. And so both corporations and their representatives can be punished. But he kind of focused on like violations that benefits the organization, benefits the corporation rather than benefiting the individuals.



Jenn Tostlebe 16:27

And you mentioned this a little bit, but can you give us more specifics about what types of crime would fall under corporate crime?

F

Fiona Chan 16:37

Yeah, so if you think about corporate crime, you might think about antitrust, you might think about, like what we call earnings management or what the layperson would call, you know, cooking the books, right, financial reporting fraud, we might think about foreign bribery and corruption, you might think about even embezzlement, and all those would fall under corporate curb.



Jenn Tostlebe 17:00

Cool. And so our focus on or your focus, I guess, in this paper was really on financial fraud, which you mentioned that, you know, a lot of the corporate crime literature has focused on very specific types of corporate crime with very little consideration toward financial fraud. And so I'm just, you know, wondering why you think so little research has been aimed toward financial fraud? Is it more difficult to study than other types of corporate crime, which seem very difficult to study in and of itself? Or is there some other reason?



Fiona Chan 17:34

That's a good question, and it's a good question that I ask myself all the time. Because this is something that's important to me and it's off my interest. And I'm always wondering, Why does no one else care? But I do think that there are several challenges to studying corporate, and especially financial crime. One is the financial system in this country in particular, it's quite complex. So my background has kind of helped me in that area, but having to learn that it's a challenge. Another challenge is it's data availability. So financial crime and corporate crime, we often suffer from the lack of data. And that's because it is one of the crime types that are influenced a lot by political changes and regime changes. And you can see kind of like, an increase in decrease in enforcement, very drastically moving from one administration to another. And so you'll see correspondingly an increase in decrease in data and not very consistent data.



Jenn Tostlebe 18:44


That's hard to then study changes to it. Yeah.




Jose Sanchez 18:49

Okay, well, I think now we can, like actually start digging into your paper. And so this paper was authored by our guest Fiona and her colleague, Carole Gibbs, and it's titled, "When guardians become offenders: Understanding guardian capability through the lens of corporate crime". It was published in Criminology in 2022. In this article, Fiona examines the mechanisms in which offenders commit corporate financial fraud and identify the failures in guardianship. Your work highlights the guardian offender overlap or instances where those charged with guardianship responsibilities become the motivated offenders. And to do so you constructed a sample of firms subjected to financial reporting related enforcement actions by the Securities and Exchange Commission, and pulled qualitative data from accounting and auditing enforcement


releases, which include information on the details of the firm and occurrence, quarterly files and annual files. And your final sample included 103 company cases, is that a fair summary of your paper?

 J Jose Sanchez 19:57


That's an excellent summary I think you did better than I could

 F Fiona Chan 20:01

We pulled from your paper.

 J Jose Sanchez 20:06

And to be honest, I like maybe understood. Like, I could read the words I'm not totally sure that I completely understand what the words mean, if we're being honest.

 F Fiona Chan 20:15

We can clarify everything.




Jenn Tostlebe 20:18

And I also had to Google what an AEER was to figure out what was included in them. But hopefully that was correct. So,

 J Jose Sanchez 20:28

and to me, SEC has always met Southeastern Conference. So I had to stop thinking about it that way.

 F Fiona Chan 20:37

Yes. Yes. Like as business people like to throw around acronyms a lot without thinking about who knows what.



Jenn Tostlebe 20:47

Yeah, while you're in that world, so, alright, so we're going to kind of semi backpedal a little because I think it's important for your paper, but getting back into routine activity theory and corporate crime. Can you tell us what opportunity structures are? And then what aspects of

opportunity structures in corporate crime are different from street crimes?

F

Fiona Chan 21:12

Okay, so, we talked about the three elements of routine activity theories. And if we backpedal a little bit, Cohen and Felson kind of said that, you know, let's assume that there will always be a motivated offender. So what creates an opportunity for crime is the convergence of a suitable target, as well as an absence of capable guardianship, right. And other white-collar, crime scholars have pointed out that well, that doesn't always neatly apply to white-collar crime. Because, you know, white-collar crime doesn't really require a direct physical convergence of offenders or victims. Many white-collar offenders also have legitimate specialized access to their targets, right because of their occupation or their possession. So we tend to focus more broadly on common places such as like networks, or business systems, or business processes, where offenders and victims come into indirect contact with each other through, you know, day to day legitimate business activities. And then White Collar Crime scholars have also like noted that suitable target doesn't always have to be the victim, or the victim's possessions or properties, right, a suitable target and white collar crime can be a process or a specific element in a process.

J

Jose Sanchez 22:46

Alright, so now we want to take these concepts and kind of start assigning roles to them, or like players to these roles. And so how do these concepts relate to corporate financial accounting fraud? So in other words, when it comes to accounting fraud, who or what are the offenders? Who are the guardians? And what is the target?

F

Fiona Chan 23:10

All right. So let's start with target, we said that target doesn't have to be a victim or victim's possession or property. In a corporate accounting environment, the targets are usually specific accounts or line items on your financial statement that offenders want to manipulate or, you know, gain access to. And offenders can be any one, any employees in the organization with access to the accounting and reporting processes, with access to any organizational resources. And in terms of guardians, we have internal guardians and external guardians, and internal guardians work within the organization. And they generally include all levels of financial personnel. And, you know, middle senior management, chief officers and Board of Directors, all these personnel that are tasked with handling and recording financial transactions, tasked with preparing and reviewing financial statements are kind of overseeing the internal controls of the organization. So external guardians would include people like independent auditors, like I was, you know, they go in and then they have their independent audit. That's different from an internal audit.

J

Jose Sanchez 24:42

Right. Okay. And so related to this, how does the nature of the accounting process and the structure of guardianship as kind of we just talked about, present an opportunity for financial fraud?

11:00.

F

Fiona Chan 24:57

Yes. So if you think about the the accounting structure and reporting process. So it's made up a lot of small, different processes. So there are a lot of steps involved, the for a financial statement is issued, or the financial statements are made public. And each little processes have, you know, individual personnel and guardians that make sure that the internal controls are functioning properly in each process. I don't know if that makes sense. I hope that makes sense. But so when we think about accounting and reporting processes, you can think about examples like a billing department or a payroll department, there are individual employees within those departments that you know, record your day to day transaction. But there are also individuals who check make sure everything is correct, make sure there are internal controls in place. So that fraud cannot be perpetrated. A lot of internal controls are required by law, right? And so we have a lot of different processes, and we have layers upon layers of internal controls. So we have correspondingly layers and layers of different guardians. And this layers of guardians are great, but I don't know if I'm getting ahead of myself, but you'll see that when this layers break down when there is an overlap of offending and offender and guardian, then this layering strategy might not work as well.



Jenn Tostlebe 26:42

Great. So based on our discussion so far, I think we're in a decent place to start and jumping into your results. But before we get into like your research questions, we just want to know, based off of this sample of 103 firms that you were looking at, what were some of the most common types of financial reporting violations that you found.

F

Fiona Chan 27:05

So I think over 40%, of the cases that I looked at involved earnings manipulation, so that's the most common type. And earning manipulations is usually, you know, like, chief officers or senior management, kind of cooking the books, right, misrepresenting the state of financial health about the corporation. And then the next most common type of financial reporting violation we see is foreign corruption and bribery. That's another area that's pretty prevalent.



Jenn Tostlebe 27:39


So I don't know if you know the answer to this, because I'm sure it's very hard to come down to it. But just like, how common is it that corporations or firms are doing these kinds of activities? Is there even a number you could put on it? Probably not. But


F


Fiona Chan 27:54


I don't have a number. And this is so difficult to say, right? A lot of people think of like accounting are as a discipline where it's black and white. It's really not that. A lot of the rules and regulations surrounding financial reporting and accounting are rather loosey goosey. A lot


of them are guidance, and a lot of them require human judgment. And so if you think about valuation of a security, right, that requires a lot of estimation, it requires an estimation requires a lot of assumptions. So who came up with these assumptions and estimations? Right, so requires a lot of kind of discretion from the leadership of a corporation to make those decisions? It's not always black and white.


 **Fiona Chan** 28:45
Yeah, interesting.

 **Jose Sanchez** 28:47
Yeah, I feel like when you describe something as loosey goosey, it opens up the door for things to not go perfectly, right.

 **Jenn Tostlebe** 28:58
Yeah, for sure.

 **Jose Sanchez** 29:00
So you have three research questions for this paper. And we usually like to kind of walk through them one by one. And so that's kind of how we're going to do it. So first, you wanted to know, who are the guardians and offenders and known cases of financial fraud? What was your finding for this question, and did it support your hypothesis, or did it surprise you?

 **Fiona Chan** 29:23
This one is pretty consistent with our expectations, just the way I have described the financial reporting process or the accounting process. We know that chief officers and senior management are responsible for overseeing a lot of different processes and so they're named as guardian more often than lower level financial employees. That's pretty expected. I think one finding that wasn't as expected was about external guardianship. We talked about external auditors as the main kind of, main in form of guardianship, externally, but we see in our cases that there are also financial analysts, there are prospective investors, there are external business partners that are the ones who uncovered the fraud. That's interesting.

 **Jenn Tostlebe** 30:17
And were those same people than the offenders that you found for the known cases of financial fraud?

 **Fiona Chan** 30:31



Fiona Chan 30:24

We find more within the company offenders than we did externally.



Jenn Tostlebe 30:30

Okay, that makes sense. Right. All right. So your second research question then was whether there was this overlap between guardians and offenders, were, as you call it, kind of in this guardian offender overlap. Did your results suggest that there was this overlap and guardian and offender roles?



Fiona Chan 30:50

I think our research kind of really support this notion of offender guardian overlap. Actually, I think only 21% of our cases does not exhibit this overlap. So the rest did. And the majority of the cases that experienced this offender guardian overlap are perpetrated by chief officers and senior management. So they account for most of that overlap.



Jenn Tostlebe 31:19

Yeah. And one thing that I noticed when reading through your paper, and that was interesting to me and you, yourself, point out that it was interesting to you as well, was that in many cases, a guardian had actually identified a case of financial misstatement prior to the information being released to the general public. And prior to detection by the Securities and Exchange Commission. Can you tell us a little bit more about this finding?



Fiona Chan 31:48

Yeah. And so let's backtrack a little bit about how we talked about the processes of accounting, and how there are multiple guardians, right, and each process, and so there are a lot of different guardians, and a lot of layers of guardianship, where someone, one of them could just flag, you know, pull a red flag and say, Hey, this doesn't look, right. And in our cases, there are a lot of instances, I think there are in 48% of our cases, actually, where this has happened, someone has raised a red flag and say, This doesn't look right. But because of this structure, where we see chief officers and senior management are more responsible for the latter part of this process, they have a lot of control for saying that, and this is not an important issue, you know, let's move on. So this is something that highlights to me, the potential pitfall of a guardianship overlap, if this overlap happens towards the end of the process. And if this offender happens to be at the top of the totem pole, then this power of management override really circumvents our different layers of guardianship, regardless of how many layers we keep adding to it, right. And we can see, after Enron, for example, we have the Sarbanes-Oxley Act, which really beefed up kind of internal control requirements for corporations, we say that you have to have all these internal controls these layers of internal controls, and we add a lot of layers, but if those layers can be override, and then is it really effective, right, is that effective strategy?



Jenn Tostlebe 34:00

Yeah, I mean, it's like in your previous role to mean being an external, you know, guardian to all of these cases, it's like, then even if you flagged it, and you're like, there's something wrong here, then the people who were no, perpetrating these crimes could just be like, nope, let's ignore it and move on. Yeah, that's what you're saying.



Fiona Chan 34:24

Yeah, a lot of times and as an external auditor, there's also another kind of component to it, right? Like an external auditor, you are, you're hired by the company. So there's some, you know, like, some component of conflict of interest there, right? You don't want to anger your clients too much because you want to retain their businesses. And so there's a little bit of like negotiation going on, right? When we find fraud, we're like, hey, this or when we find something that doesn't, you know, look, you know, right, and we say hey, maybe you should, you know, change this, but then they will push back. Right? You know that there's some sort of like negotiation, some sort of pushback that makes external guardians not 100% effective. Even if we did detect a fraud. It's the intervention that wasn't there. Right.



Jenn Tostlebe 35:21

Yeah. So interesting, this layering process. Yeah. Sounds complicated, and maybe not the best model that we can do moving forward. Anyway.



Jose Sanchez 35:33

Okay. So your final research question is perhaps the most complex, as it examines how perpetrators of financial fraud, circumvent guardian structure. So kind of starting to get a little bit to what we're just talking about. You identified five major themes that describe the mechanisms, these individuals used to perpetrate and or conceal financial fraud. Can you tell us a bit about these mechanisms?



Jenn Tostlebe 36:02

It's kind of like, sorry, I was just gonna say is it kind of like how some police departments, at least in the news, this has come up where, say, like, a homicide happened toward the end of the year, but they didn't want it to go to this year's count for homicide, so they waited to release it until January?



Fiona Chan 36:02

Yeah. So we said that the majority of the cases were there as an offender guardian overlap, as perpetrated by, you know, senior management and chief officers. And a lot of times, these individuals are in a position that allow them to have a lot of say, in the accounting processes, and adjusting the final product to final financial statements, right? And so one of the themes

that we've identified as temporal manipulation, where there are different ways that these officers and senior management can manipulate timing of accounting in order to perpetrate the fraudulent activities that they did. So one of the things that they would do is, for example, make those year end adjustments, right? And they're purview to do that to make a little bit of adjustments in the accounts where things might not be balanced. And things like sell adjustments that come towards the end of the process, I would say, and another way to manipulate, like, the timing of things is kind of holding back something and then releasing something. A better way to say it as one, let me think.



37:53

Yes, that's exactly it. And so like investors, right, like big increases, and big decreases are not favorable to investors. And so a lot of times, you'll see strategies for performance smoothing, so I'll hold back some of the revenue this year, because we did really well, I'll hold it back for when we did poorly, and we, you know, kind of use that as like a little padding. We call that the cookie jar, you put that for something in the cookie jar. And, you know, you can take it out whenever you need to. Yeah, and those are some of the themes that you'll see in these cases where they manipulate the timing of revenue recognition when they recognize sales and revenue. Another thing they would manipulate in terms of timing is, you know, they know the operation really well, right? And so they know when, you know, auditors are the most busy, they know when would be a good time to perpetrate or to, you know, to sneak in little fraudulent transactions, right?



Jenn Tostlebe 39:08

Yeah. Okay. Was that the main kind of mechanism then that you saw in the data?



Fiona Chan 39:14

Now, we saw actually four other mechanisms, and they're all like, to me pretty interesting and can highlight that importance of like overlap. One of the things and I have kind of touched on that a little bit already, is about how complex accounting is that it's not often black and white, right? It involves a lot of estimation and assumptions. And people higher up in the totem pole has a lot of say in these estimation and assumptions and they take advantage of that. And other thing about people in those positions and higher up positions is that they have a lot of power. And they were able to, you know, dismiss a red flag being raised, they were able to override a lot of internal controls, and they're able to kind of bully, you know, their employees into agreeing with what they have concluded, right? And then one last thing, or maybe two last things that we've observed as about corporate structure, a lot of times the cases that we see involve subsidiaries, so they involve a lot of really complex organizational structures. And the structure is these complex structures. They play a role in kind of obscuring information flow, right? So we call this structural secrecy in the white collar crime realm where information flow was limited in upstream or downstream directions, because of how complex an organization is the last theme that we identified as a theme of quid pro quo with external parties. One of the main kind of way that white collar crimes are perpetrated and concealed is through kind of a superficial, superficial appearance of legitimacy, right? So they would solicit help with their business partners or external, like other companies, where they would say, Hey, have you

helped me make up this big transaction, we'll help you with this other thing, right? So some sort of quid pro quo arrangement. And that way, they can have a superficial appearance of legitimacy on the books that transaction has occurred with the help of a lot of external third parties.



Jenn Tostlebe 41:57

Yeah. Interesting. Okay, so based off of your work, you found, like significant guardian offender overlap. What did you say like 80%? Yeah. In your sample? Yeah, of the commission of corporate financial fraud. And so we're just kind of wondering, you know, based off of this work, that high percentage kind of these mechanisms or themes that you uncovered, what are some of the implications that your work has for research policy and practice?



Fiona Chan 42:29

I think it really highlights what happens when a guardian acquires the motivation to become an offender. And especially when they're very familiar with the target, right? So they can take advantage of the familiarity. And in the case of corporate financial crime, they can really take advantage of their position, to perpetrate the fraud. And I think this overlap happens, or might happen in a lot of different crime types other than corporate crime off the top of my head, I want to think about maybe off the top of my head, I could think about like child abuse, or, you know, domestic violence type thing where the guardian could be the offender as well. And what that means to us, right, in terms of crime prevention, in terms of theory development, right? I mean, for corporate crime, I think we talked about how that layer of guardianships, that layered structure might not always be the most effective because of this, you know, offender guardian overlap. And because of the position and the power that these offenders have.



Jenn Tostlebe 43:49


Again, I just wanted to say it was really fun and interesting reading your paper. So anyone who's not necessarily super interested in corporate crime, I highly suggest it because it was really interesting to read.



Fiona Chan 44:02

Thank you. Yeah, I think a lot of my inspiration actually comes from looking at other crime type. And I think there is like a very, there's just really great opportunity for us to learn from each other from the different crime types. So this is like something that always it's at the back of my mind is when I listen to other people talk about their work, and how do I apply that to corporate crime, right? And I think in this paper, what I'm hoping is that you can see the bigger utility of focusing on capability and focusing on potential offender guardian overlap, right, and other forms of crime. And, I mean, I went to ASC I went in a panel this past ASC and they talked about parole, probation, parole and probation decisions using machine learning, and I was shocked at how much it kind of parallels my own work and my dissertation because I was looking at that. And I was like, Hey, we faced the same problem but we have completely different data. And like, what can we learn from my data? What have they learned from their


data, and parole and probation decisions using machine learning? And turns out, there's a lot we can learn from each other? And which is why I think it is important for us to kind of think about our take a look at other crime types and give us inspiration. And yeah, things like that.

 J Jose Sanchez 45:42


Yeah, so we were actually going to ask you about, you know, the kind of like this crossover, and interdisciplinary work, I guess, is there more that you can say about what we can learn from each other? You talked about, like, machine learning, which we could probably do an entire episode, and I still probably wouldn't understand what that is. But yeah, any other benefits that you see from kind of this intermingling of what we study and how we study it?

 F Fiona Chan 46:10

Yeah, I think a lot of times, when I look at a crime, like when I look at theory, for example, right, and I, when I look at theory, I always look at how a certain theory applied to corporate crime. And there's always some aspect where it applies perfectly, and other aspects where it doesn't apply so neatly. And then, so a lot of corporate crime scholars have kind of like adjusted and molded previous theories to kind of, you know, adapt it to corporate crime or white collar crime in general. And I think this gives us two things it tells says, like, context, right, what kind of, how generalizable that theory is. And it tells us mechanisms. When does it work? Like, how does it work? Right? So it tells us when and how does it work through context and mechanisms? And, yeah, I think that's something that the field has moved our progress towards, right? We're looking more into not just how theory whether a theory works or doesn't work. But does it also like how does it work? And when does it work?

 Jenn Tostlebe 47:32


Yeah, for sure. Is this work from your dissertation? Or is this something separate the paper we talked about today?

 F Fiona Chan 47:39

That's entirely different.

 Jenn Tostlebe 47:41

Okay.

 F Fiona Chan 47:41

Yeah.



Jenn Tostlebe 47:42

Yeah, I was just curious. But anyway, we just want to say thank you so much, again, for joining us. Where can people find you if they have questions or comments? Is email the best. Are you on Twitter?



Fiona Chan 47:54

Yeah, emails, the best way to find me. Thank you so much for having me. This was really fun. I always like talking.



Jenn Tostlebe 48:02

Perfect. All right. Well, thank you again. It was great having you on in wonderful to meet you.



Fiona Chan 48:08

It was great being here. Thank you so much for having me.



Jose Sanchez 48:12

Yeah. Thank you. Bye.



Jenn Tostlebe 48:15

Hey, thanks for listening.



Jose Sanchez 48:17

Don't forget to leave us a review on Apple podcasts or iTunes. Or let us know what you think of the episode by leaving us a comment on our website, thecriminologyacademy.com.



Jenn Tostlebe 48:27

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Jose Sanchez 48:39

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