

# Chapter 1

## Understanding Corporate Scandals: A Conceptual Model and the Corporate Governance Involvement

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### **ABSTRACT**

*This chapter presents a conceptual model for identifying and understanding corporate scandals from a governance perspective. A mixed-method literature review was conducted to gather necessary constructs and concepts. More than 1,141 relevant documents were researched in Scopus. The conceptual model distinguishes between transgressions and scandals, emphasizing the importance of intentionality, attributes, aftermaths, and the media framing process. Three essential elements for a corporate scandal were proposed: transgression, significant aftermath, and publicity. The chapter's limitations include using a single database and focusing on the corporate field, leaving out government scandals. This chapter provides valuable originality by distinguishing corporate transgressions from scandals, identifying corporate scandals, and defining many terminologies, concepts, and theorizations that had to be developed to have a universal language that could support the construction of all this reasoning.*

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## 1. INTRODUCTION

Discussing corporate scandals within the accounting, business management, and corporate governance field is essential. Through this analysis, professionals and researchers can identify areas for improvement in regulations and practices. This will lead to a better corporate governance system that promotes accountability and transparency, ultimately reducing the likelihood of future scandals. By examining past cases of corporate misbehavior and agency conflicts, we can gain valuable insights into the importance of effective corporate governance (Hail et al., 2018). Furthermore, the existence of scandals is not a new phenomenon, as it has been mentioned throughout history, with examples dating as far back as the Bible.

Scandal is such an old situation that we can identify its importance in the Bible (*King James Bible*, 2019, v. Matt. 18:7) “Woe unto the world because of offences! For it must needs be that offences come; but woe to that man by whom the offence cometh!”. The other version of the Bible is written (*English Standard Version Bible*, 2011, v. Matt. 18:7) “Woe to the world for temptations to sin! For it is necessary that temptations come, but woe to the one by whom the temptations comes!”. Matthew’s gospel was originally written in Greek. Hence, sometimes we see the words offence, sin, occasions and even temptation in the translations. On the website Bible Hub (*Bible Hub*, 2021, v. Matt. 18:7), we could see the original writing in Greek. The Greek word alone is σκανδάλων as an adjective or σκάνδαλα as a noun. So, the direct translation without any linguistic influence would be scandalous or scandal. Now, rewriting the same verse, we have “Woe to the world because of the scandals. Necessary are for to come to the scandal, but woe to the one by whom the scandals comes!”. The concept of scandal has been present for centuries, as evidenced by its mention in the Bible. Regardless of the translation, the message remains the same: those who cause scandal will be subject to “condemnation.” However, what is a scandal, and how do they come up? After so many centuries, there is still much discussion on this topic that remains current, attracting the attention of many researchers, investors, and the general public.

Going into a business context, it is essential to be mindful that corporate governance routines may not always prevent excessive risk-taking in companies. The corporate crisis can be traced back to shortcomings and inadequacies in corporate governance arrangements. Corporate wrongdoing can stem from intentionality or negligence from excessive risk-taking, leading to major corporate scandals (Kirkpatrick, 2009). The occurrence of corporate scandals and the contributing factors that lead to them are of great interest to all. It has been observed that different economies may experience distinct types and frequencies of scandals despite their close interconnections. While the popular belief is that stock market bubbles are the primary cause of sudden corporate financial scandals, leading

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