

Assessing the Effectiveness of the Sarbanes-Oxley Act 2002 to Moderate Legal Corporate Behavior

Brian K. Harte
College of Business and Liberal Arts
State University of New York at Canton, Canton, NY 13617
harte@canton.edu

Abstract

This research examined the effects of organizational environmental factors on firm illegal corporate behavior. Alternately, this research examined the ability of the Sarbanes-Oxley Act of 2002 to moderate the relationship between prior violation committed and future illegal corporate behavior. Corporate Socially Responsible (CSR) behavior within business organizations was also examined to determine its relevance in predicting illegal corporate behavior. Moreover, this research proved an organizational level, five year pre and post historical analysis of legal behavior across Fortune 500 firms. Additionally, this research aimed to determine if antecedents to illegal corporate behavior can be identified and if a corporate governance mechanism such as the Sarbanes-Oxley Act of 2002 can be an effective legislative tool impacting firm behaviors. The Sarbanes-Oxley Act itself will be analyzed as an event to determine its appropriateness in promoting ethical and legal behavior and effective corporate governance.

This research examined Baucus and Near's (1991) model of the illegal and corporate behavior process to test its ability to predict illegal behavior within historically corrupt industries. Moreover, CSR as an embedded theme within specific firms and its implications towards both ethical and legal firm practices were examined.

Introduction

Many studies have identified the lack of strong corporate ethics and the need for evolutionary changes in current management and business practices both nationally and internationally. However, very little research has been conducted to determine how oversight mechanisms of corporate governance and a firm's adherence to socially responsible behaviors directly impact corporate corruption itself.

The lack of strong corporate ethics and fiscally responsible behaviors within corporations over the last decade created the need for the enactment of more external corporate controls, to include enforcement of regulations to monitor and control private industry financial practices. This need for greater corporate accountability is demonstrated through recent acts of U.S. corporate corruption. Additionally, this need is further evidenced by the fact that U.S. corporate corruption has become rampant and efforts to attain great wealth have led to unethical business

practices. Furthermore, the focus on the attainment of wealth has led some firms to engage in both irresponsible and/or illegal firm behaviors to achieve their ultimate goals. Thus, indicating a need for greater corporate accountability. Therefore, an organization's overall decision to comply or not comply with legislation to guide ethical and legal practices may prove highly contingent upon the respective firm's: behaviors, composition, resources and the socially responsible behaviors of the firm members themselves. Therefore, the theoretical analytical framework for this research will be examined through the lenses of identified antecedents to illegal corporate behavior – environmental antecedents, internal antecedents and situational antecedents (Aldrich, 1979) that facilitate firm activities. Moreover, the antecedent conditions that describe a firm's environment were examined theoretically through an analysis of Baucus and Near's model of the illegal behavior process. This theoretical analysis provided a conceptual structure outlining the environmental dimensions of corporate firms.

Recent Acts of U.S. Corruption and Corporate Crime

Several U.S. companies to include Adelphia, Healthsouth, McKeesson, Tyco, Refco, and Quest have recently been investigated for fraudulent activities (Brickley, 2003). "These investigations have led to criminal charges against over ninety corporate owners, executives and employees, and the investigations are still ongoing (Brickley, 2003, p. 358)". In addition to these findings, by August 2003, 18 Enron executives had been indicted for acts of corporate fraud. It should be noted, however, that pragmatic implications of the relationship between firm size and an organization's likeliness to engage in illegal corporate acts within respective industries has not been clearly identified.

In response to unethical corporate practices demonstrated by several American Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs), the U.S. federal government developed legislation to strictly govern corporate fiscal behaviors. This action was a strategic response based on the recognized need for a higher degree of compliance to both ethical and legal corporate standards. Moreover, this was a reaction based on the need to implement a strategic initiative to address inadequate processes of measurement and control due to weaknesses in laws, regulations and pronouncements in external control measures (Heier, Dugan, & Sayers, 2005). Likewise, the need for further legislation is reflective of a lack of public trust in not only corporate executive officers to govern their corporations not only ethically, but also legally and responsibly. Likewise, it also indicates a lack of trust in corporate governance boards to appropriately oversee firm activities.

The SOX act may prove to be a significant piece of legislation moderating corporate ethics. However, little research has been conducted to determine the ability of SOX to moderate the ethical corporate behaviors of firm's within historically corrupt industries. Likewise, whether or not SOX moderates socially responsible business practices and ethical and legal firm behaviors have yet to be determined. Additionally, the influence of SOX as an effective mechanism of corporate control on firms within historically corrupt U.S. industries themselves has yet to be explored.

The theoretical background for research is derived from antecedent conditions to illegal behavior as described by Aldrich (1979) and Baucus and Near's (1991) model of predicting corporate illegal behaviors and the illegal corporate behavior process. Aldrich (1979) identifies

three key environmental dimensions representing firm characteristics independent of leader personality variables. These variables are described as scarcity, dynamism, and heterogeneity (Aldrich, 1979). Furthermore, Baucus and Near (1991) introduced situational variables that are related directly to instances of firm illegality.

Environmental Antecedents

Aldrich's (1979) formulation has shown to be important in understanding the role the environment plays on adaptive organizational behavior. Baucus and Near's (1991) research examined Aldrich's (1979) assertions through studying the illegal acts committed by all *Fortune 500* companies between the periods of 1974-1983. The authors compared this sample with 104 randomly selected non-convicted firms to compare firm similarities and differences by industry. This study revealed five key findings: 1.) illegal activities occur under uncertain conditions, 2.) large firms are more likely to commit illegal acts than small firms (although probability increases when sources become scarce), 3.) illegal behavior is prevalent in fairly stable environments, but is more probable in dynamic environments, 4.) membership in industries with a repeated history of wrongdoing are associated with illegal acts, and 5.) the type of illegal activity may be dictated by the environmental and internal conditions under which the firm operates (Baucus & Near, 1991). The authors conclude that environmental munificence, environmental dynamism, firm size, industry, three or more prior violations, and type of violations could be utilized to predict illegal corporate behavior. A significant relationship has been found between these organizational environmental factors and the performance, structure, and strategy of organizations (e.g., Keats & Hitt, 1988; Davis, n.d.). Moreover, corporate corruption has identified complex environments as conducive to illegal activity (Baucus, 1994). Therefore, two constructs hypothesized within this dissertation to significantly impact illegal corporate behavior are munificence and dynamism. Two main environmental variables were examined within this research: munificence and dynamism.

Munificence

Castrogiovanni (1991) defined environmental munificence as the scarcity or abundance of resources available in an environment and demanded by one or more firms (Davis, n.d.). Organizations competing in environments characterized by high levels of dynamism may need to show more flexibility to adapt to the changing environment, and to assist in ensuring the organization's survival (Mascarenhas, 1986).

Dynamism

The construct of dynamism is comprised of numerous variables including: 1.) speed in which the environment is changing (stability-instability), 2.) turnover rates, and 3.) predictability and unpredictability contributing to uncertainty (Davis, n.d.). Organizations competing in environments characterized by high levels of dynamism must have greater flexibility to adapt to a changing environment (Mascarenhas, 1986). Moreover, Mascarenhas (1986) posits that dynamism is an important factor that assists in ensuring an organization's survival.

Study Purpose

The purpose of this study is two-fold, to explore the SOX act's ability to function as a corporate governance mechanism to moderate the relationship between seriousness of violation

committed and illegal corporate behavior. Moreover, its intent is to examine if illegal corporate acts (leading to corporate corruption) can be predicted. Historical data of illegal criminal corporate behavior will also be gathered to test the antecedents of Baucus and Near's (1991) model of predicting corporate illegal behaviors. Moreover, this research will provide a historical analysis of firms criminally prosecuted five years prior to, and five years after Sarbanes-Oxley act implementation. This historical analysis of Sarbanes-Oxley corporate activities will be utilized to determine the overall influences of SOX and its ability to moderate the relationship between corporate social responsibility and other behaviors specific to firms.

Research Objective

Through this study, this researcher will attempt to answer the research question: How are antecedents to illegal firm activities impacted by corporate governance mechanisms (i.e. SOX) and corporate socially responsible behavior?

Significance of Study

This study contributes to the advancement of the corporate reform literature by providing an analysis of the composition and characteristics of historically corrupt industries. Moreover, it examines the fundamental composition of U.S. firms to study antecedents of corporate corruption. Additionally, this study will serve as a five year pre and post event analysis of the effectiveness of the SOX Act to perform as an effective corporate control mechanism.

This study is important because it may assist corporate boards and government legislators to understand factors influencing illegal corporate behavior. Additionally, this study intends to examine the impacts of corporate reform efforts on specific firm behaviors. Moreover, SOX Act criminal punishment provisions will be examined to determine their impact on firm adherence to external and internal ethical and legal provisions. The impacts and consequences for failure to meet expected government standards of compliance under SOX will also be examined.

Relevant Studies in Corporate Corruption

Baucus and Near's (1991) research examined antecedents of illegal firm behavior through studying types of criminal acts committed by 88 convicted *Fortune 500* firms from the period of 1974 to 1983. The authors used a comparison group sample of 104 non-convicted *Fortune 500* companies. Alexander and Cohen (1996) expanded the literature on corporate illegal behavior through their examination of criminal acts of 77 public manufacturing corporations between the period of 1972 to 1994. The authors' utilized a variety of archival data to provide an exhaustive review of the legal literature including the following sources: Wall Street Journal Index, Corporate Crime Reporter, keyword searches on Lexis-Nexus legal data base, Anti-trust Trade and Regulation Reporter, and a periodical report by the U.S. Environmental Protection Agency (Alexander & Cohen, 1996). The authors' research suggests that larger corporations with larger sales transactions and higher numbers of employees typically have more opportunities to engage in criminal acts. Their research revealed a total of 120 convictions of 101 U.S. public corporations convicted between the time period 1975-1992, including 55 fraud conviction cases (Alexander & Cohen, 1996). Through their research, the authors' found two significant findings as follows: 1.) larger firms are more likely to engage in crime than smaller firms, and 2.) low rate of sales and

employment (or employment growth) by a firm is a good predictor of environmental crime (Alexander & Cohen, 1996).

Utilizing Baucus and Near's (1991) model of the illegal corporate behavior process, this researcher explored antecedents to illegal corporate behaviors indicating corrupt practices within the context of U.S. corporate (*Fortune 500*) companies.

The hypotheses utilized within this study are listed as follows:

H1: Firms having a high degree of environmental munificence (abundant resources) will have lower levels of illegal corporate behavior.

H2: Firms having high levels of environmental dynamism will have a high degree of illegal corporate behavior.

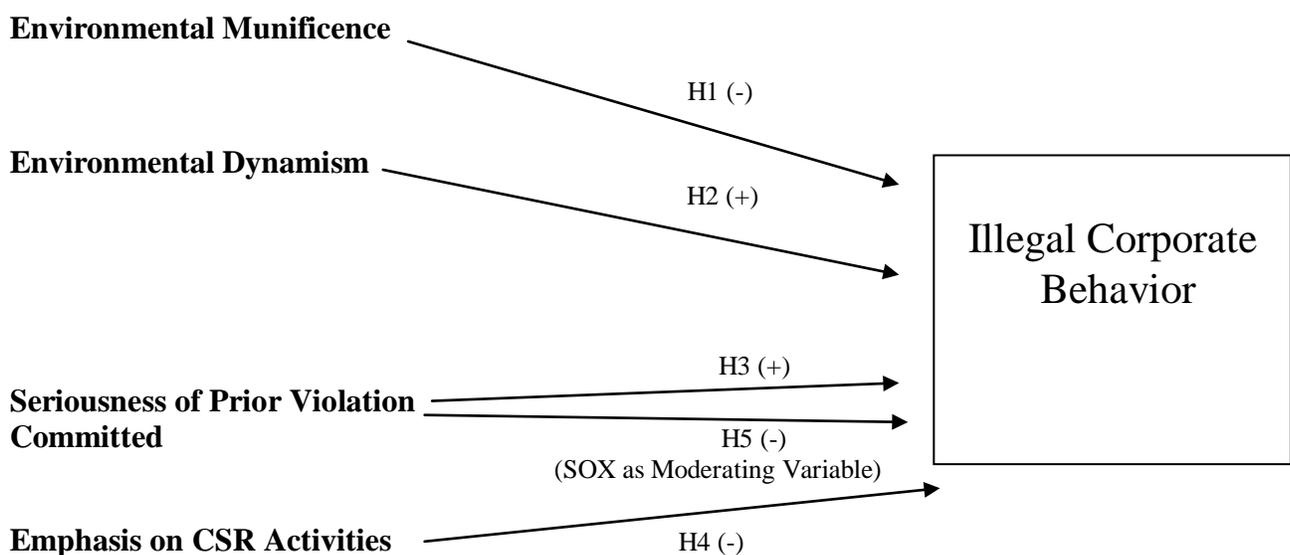
H3: There will be a negative correlative relationship between seriousness of violation committed and illegal corporate behavior.

H4: There will be a negative correlative relationship between a strong emphasis on corporate socially responsible firm activities and illegal corporate behavior.

H5: The Sarbanes-Oxley act will positively moderate the relationship between seriousness of violation committed and illegal corporate behavior.

Enhancements are proposed to Baucus and Near's (1991) model of Illegal Corporate Behavior as indicated in Figure 1 below:

Figure 1 - Factors Leading to Illegal Corporate Behavior: Proposed Enhancements to Baucus and Near's (1991) Model



Study Variables	Operationalized as:
Environmental Munificence	The scarcity or abundance of resources available in an environment and demanded by one or more firms.
Environmental Dynamism	Speed in which the organizational environment is changing from stability-instability and the predictability and unpredictability of this change contributing to uncertainty
Seriousness of Prior Violation	The level of offense classification of firm violation resulting in criminal prosecution and conviction.
Emphasis on CSR Activities	A firm's commitment to embrace behaviors that promote corporate social responsibility.
Illegal Corporate Behavior	Corporate behaviors resulting in illegal acts committed by firms leading to criminal conviction for violations of legal compliance standards.
Sarbanes-Oxley Act of 2002	Federal legislation developed as a mechanism for corporate governance regulation/ standards compliance.

Control variables = firm size; industry membership; prior violations

Figure 1 above outlines this study's independent variables, dependent variable and the direction of the proposed relationships.

Sample Selection

A search of prosecution and conviction data of Fortune 500 firms convicted of 'white collar' crimes from the above sources for the years spanning 1990-2007 resulted in the identification of 50 convicted firms and a total of 126 convictions for crimes designated as 'white collar'. This sample of 50 identified firms convicted by the courts was drawn based on available conviction data obtained through the information sources listed above. Each instance of corporate corruption will be treated as a separate observation. Moreover, multiple data sources will be utilized to triangulate data source findings and identify all incidences of firm convictions. Additionally, a list of comparable non-convicted Fortune 500 firms (matched based on industry type and firm size) will be generated to create a matched pair dataset of both convicted and non-convicted firms. Likewise, the sample of 50 non-convicted Fortune 500 firms was randomly selected (based on firm size and respective industry type for the time period 1990-2007 (total sample size - N=100). This time period provided a total of 1,800 firm year's worth of financial data. The four-digit SIC industry code will be utilized to indicate the number of both convicted and non-convicted firms identified by major industry type. The four-digit industry code was selected within this research to further describe firm types and specify what sector within industries individual firms operate within their primary markets.

Matched pair design was utilized within this study to create pairs of firms that are similar in both industry type and sales (firm size). Matched firm pairs were constructed by pairing each of the identified convicted firms (n=50) with a comparable non-convicted firm match (n=50), (total sample size - N=100) based on the following characteristics: firm size (dummy code: 1 = small, 2 = medium, 3 = large); industry type (designated by use of the four digit SIC code); firm sales (per million). Additionally, firm matches will be created at the same point in time. For

example, a firm with a conviction in the year 1990 will be matched with a non-convicted firm at the same point in time based on the above aforementioned characteristics. Each of the qualifying non-convicted firms eligible for consideration based on the above criteria will be assigned an identifying number. A random generator calculator will then be utilized to select each individual non-convicted firm to create matched firm pairs.

The four digit Standard Industrial Classification (SIC) code will be utilized to categorize each industry and delineate each firm’s membership within its respective industry.

Data Collection and Procedures

In summation, data collection for this research included the collection of archival/historical conviction data from relevant reputable sources documenting corporate criminal acts. These secondary data sources include: 1.) Lexis-Nexus; 2.) 2002 Corporate Fraud Task Force; 3.) Corporate Crime Reporter. Data utilized to obtain firm corporate financial reportings were acquired from the following sources respectively: 1.) Standard and Poor’s COMPUSTAT; 2.) U.S. Statistical Abstract. Additionally, data collected to examine the independent variable industry reputation for CSR behavior will be derived from content analysis of corporate website reportings of CSR related activities.

A search of Fortune 500 firms convicted by the courts during of the period 1990-2007 was conducted to determine the quantity and type of criminal violations committed by corporate firms. The four-digit SIC code representing each industry was utilized to indicate the illegal acts committed by each firm within its respective industry. A convenience sample of available conviction data of 50 convicted Fortune 500 firms was selected and compared with 50 non-convicted Fortune 500 firms (N=100). Logistical (logit) regression analysis techniques were utilized to determine the maximum likelihood of predicting illegal corporate behavior utilizing two main explanatory variables – environmental munificence and environmental dynamism. Moreover, Ordinary Least Squares (OLS) regressions was also utilized to model the data through two separate time periods to determine the impact of the SOX act of 2002 on illegal corporate behavior.

Data Analysis

Data analysis was performed utilizing a variety of techniques including logistical regression, Chi-square, OLS regressions, and t-tests.

The results of both convicted and non-convicted firms within the pre- and post- SOX eras are presented in Tables 1-4 below.

Table 1 – Logistic Regression Results of Sample Firms during Pre- and Post- Sox Era

	<i>ILLCORP</i> as Dependent Variable				
	(1)	(2)	(3)	(4)	(5)
<i>ENVIRMU</i>	-0.645 (2.9102)				-0.666 (3.0461)

<i>ENVIRDYN</i>		0.105 (0.0767)			0.174 (0.2100)
<i>FRMSZ</i>	-0.442 (5.1956)	-0.445 (5.2474)	-0.412 (4.5014)	-0.424 (4.7684)	
<i>SICOD</i>	0.072 (3.7450)	0.070 (3.5792)	0.061 (2.7540)	0.061 (2.7165)	0.074 (3.9127)
<i>SOX</i>	-0.271 (5.0871)	-0.260 (4.7099)			
<i>ENVIRMU*SOX</i>			-0.4657 (3.3042)		
<i>ENVIRDYN*SOX</i>				0.064 (0.0695)	
<i>FRMSZ*SOX</i>					-0.103 (6.8387)
Constant	1.380 (5.0492)	1.324 (4.6524)	0.950 (2.6159)	0.9319 (2.5253)	0.122 (0.3456)
Odds Ratio for <i>ENVIRMU</i>	0.522				0.514
Odds Ratio for <i>ENVIRDYN</i>		1.111			1.190
Odds Ratio for <i>FRMSZ</i>	0.643	0.641	0.662	0.655	
Odds Ratio for <i>SICOD</i>	1.075	1.073	1.063	1.062	1.076
Odds Ratio for <i>SOX</i>	0.763	0.771			
Log Likelihood Ratio	15.4023	12.5523	11.0443	7.7750	12.5399
Number of Observations	1193	1193	1193	1193	1193

N = 1193

Wald statistics are given in parentheses

0 = No Illegal Corporate Behavior (Non-Convicted Firm),

1 = Illegal Corporate Behavior (Convicted Firm)

Hypotheses 1 and 2 were tested utilizing logistical regression analysis. Model 1 above shows that environmental munificence (-0.645), firm size (-0.442), and SOX (-0.271) are negatively and significantly related to illegal corporate behavior. This suggests that the higher the level of abundant resources (munificent environment) of a firm, the less the likelihood that the firm will engage in illegal corporate behavior. Similarly, if the firm is large in size, it is less likely to engage in illegal corporate behavior in the post-Sox era. It is expected that SOX will mitigate illegal corporate behavior even in an abundant resource environment. This is confirmed by the higher odds ratio result for SOX (0.763). The results support the argument that SOX will moderate illegal corporate behavior.

Model 2 presents the results for environmental dynamism. Though environmental dynamism does not show a significant relationship with the independent variables, firm size (-0.445) and SOX (-0.260) have a negative and significant relationship with illegal corporate behavior. The results lend support to the argument that SOX moderates illegal corporate behavior, in both munificent and dynamic environments. However, the impact is more profound in environmental munificence, as evidenced in model 3 results for the interaction term – environmental munificence and SOX. The inclusion of the interaction terms provides a clear description of the relationship between environmental munificence and SOX with illegal corporate behavior. The negative relationship suggests that in the post-SOX era, environmental munificent firms suffer more in cases of illegal corporate behavior.

Models 4 and 5 indicate that environmental munificence and firm size have a negative impact on illegal corporate behavior. The interaction term for environmental dynamism with

SOX does not show a significant relationship with illegal corporate behavior, but for firm size, it is negatively significant.

Table 2 below presents the chi-square results utilizing a binary logistic model analysis of both Pre-Sox and Post-Sox firms testing model goodness-of-fit:

Table 2: Analysis of Chi-Square Testing Pre-Sox and Post-Sox Firms

This table presents results using the binary logistic model. The non-convicted (convicted) firms are assigned a value of 0 (1).

Variables	Binary Response Variable: Non-convicted and Convicted Firms	
	Pre-Sox	Post-Sox
<i>ENVIRMU</i>	-0.811 (2.6453)	-0.633 (1.0500)
<i>ENVIRDYN</i>	0.285 (0.2921)	0.048 (0.0074)
<i>FRMSZ</i>	-0.769 (5.9206)	-0.216 (0.7314)
<i>SICOD</i>	0.091 (3.0885)	0.0533 (0.9673)
Constant	2.022 (4.4944)	0.250 (0.1082)
Likelihood Ratio	11.2617	3.1923
Number of Observations	708	485

N = 1193

Wald Chi-Square given in parentheses.

Table 2 presents the results of an analysis of convicted and non-convicted firms using a Chi-square test. The above analysis revealed the statistical findings within both pre-SOX and post-SOX eras. Chi-square test results suggest that the logistic model works better in the pre-Sox era compared to post-Sox era. However, the logistic model works well with the entire sample data as reported in Table 1.

Hypothesis 3 and 5 were tested utilizing a seriousness of crime index to determine the seriousness of corporate crime(s). Both quantitative and qualitative results of expert panel member findings indicated that seriousness of crime was lower in the pre-SOX period than in the post-SOX period. Thus, indicating that corporations and their officers face more serious consequences for their actions in the post-SOX era.

Table 3 – Regression Results for seriousness of violation committed and illegal corporate behavior during pre and post-SOX periods

Variables	<i>Seriousness Index</i> as Dependent Variable	
	Pre-Sox Period	Post-Sox Period
<i>ENVIRMU</i>	-3.847 (-2.80)	10.987 (-1.64)
<i>ENVIRDYN</i>	-0.706 (-0.31)	-1.054 (-0.77)

<i>CRIME INDEX</i>	0.001 (0.01)	-0.006 (-0.01)
<i>FRMSZ</i>	-1.652 (-2.07)	-0.166 (-0.22)
<i>SICOD</i>	0.011 (0.12)	0.328 (1.49)
Constant	6.707 (2.89)	1.064 (0.33)
Adjusted R-Square	0.12	0.13
Number of Observations	80	28

N = 108

t-value given in parentheses

p < 5%

Pre-Sox period results indicate that the conviction of a firm has a negative impact on environmental munificence (-3.847). Further, results show that the larger the firm the more negative the impact. The coefficient for environmental dynamism (-0.706) is negative, though insignificant. When the regression results are analyzed during the post-Sox period, it indicates that, although environmental munificence and dynamism both have a negative coefficient, they are not statistically significant. Further, the coefficient of firm size is negative, even though it is not statistically significant. This result suggests that the Sarbanes-Oxley Act provides a moderating effect on illegal corporate behavior. This may in turn be a result of increased punishments and harsher penalties under the Sarbanes-Oxley act. Thus, the above findings support hypothesis 5 regarding the SOX act having a moderating effect on illegal corporate behavior.

Table 4 below provides an analysis of means of CSR related terms frequently used within firms that espouse a strong commitment to corporate socially responsible behavior.

Table 4: Descriptive Statistics of CSR Variables

Variables	N	Mean	Median	Standard Deviation	Minimum	Maximum
Panel A: Non-convicted Firms						
Corporate Social Responsibility	50	1.22	0	2.59	0	12.00
CSR	50	1.80	0	4.50	0	24.00
Social Responsibility	50	2.58	0	5.72	0	34.00
Socially Responsible	50	0.18	0	0.60	0	3.00
Corporate Sustainability	50	0.40	0	1.59	0	10.00

Corporate Citizenship	50	3.16	0	8.84	0	60.00
	Panel B: Convicted Firms					
Corporate Social Responsibility	50	1.26	0	3.77	0	22.00
CSR	50	0.70	0	2.87	0	18.00
Social Responsibility	50	1.20	0	2.07	0	9.00
Socially Responsible	50	0.34	0	2.00	0	14.00
Corporate Sustainability	50	0.20	0	0.81	0	4.00
Corporate Citizenship	50	2.32	0	5.83	0	29.00

N=100

Hypothesis 4 was examined utilizing t-tests. The above compiled data were used for this analysis. T-test results indicated that the mean of CSR indicators differ in four industry segments. Differences were found in the following segments: 2800-2865 ($p=0.01$), 2911 ($p=0.02$), 3318-3534 ($p<.0001$), and 4813-4953 ($p=0.02$).

CSR was found to be negatively correlated with seriousness of crime and SOX, at a low correlation level (-0.19 and -0.28). However, CSR is highly and positively correlated with environmental munificence (0.54). This suggests that in an abundant resources environment, firms' act more socially responsible. As expected, CSR is not significantly related to other predictor variables.

Conclusion

In conclusion, the lack of strong corporate ethics and fiscally responsible behaviors within corporations over the last decade has created the need for more external corporate controls, to include enforcement of regulations to monitor and control private industry financial practices.

In this dissertation research, environmental munificence (-0.645), firm size (-0.442), and SOX (-0.271) were negatively and significantly related to illegal corporate behavior. However, results differed in both the pre- and post-SOX eras. Larger firms in the pre-SOX era were found to be more likely to engage in illegal corporate behavior. However, in the post-SOX era, the results indicate no statistically significant relationship with firm size and environmental munificence. Thus, no support was found for hypothesis 1. However, it should be noted that smaller munificent firms were found to be more likely to be convicted of illegal corporate behavior more frequently than larger munificent firms. One possible explanation for this occurrence is the fact that larger firms have more resources, and thus, have the ability to avoid detection of illegal acts more readily than smaller, more transparent firms.

In testing hypothesis 2, it was found that during Pre-SOX era, larger firms are more likely to engage in illegal corporate behavior. This is implied by the firm size coefficient (-0.730) which is statistically significant. The insignificant coefficient for environmental dynamism for both convicted and non-convicted firms during pre and post-SOX eras, however, suggests that environmental dynamism does not appear to be a significant factor in predicting illegal corporate behavior.

Hypothesis 3 was tested utilizing a seriousness of crime index to determine the seriousness of corporate crime(s). Both quantitative and qualitative results of expert panel member findings indicated that seriousness of crime was lower in the pre-SOX period than in the post-SOX period. Thus, indicating that corporations and their officers face more serious consequences for their actions in the post-SOX era. Seriousness of crime was found to affect the munificence of a firm's environment and that punishment varies by firm size. Thus, a negative relationship was found to exist between seriousness of violation committed and illegal corporate behavior.

Hypothesis 4 was successful in providing support for the premise that CSR is an important variable impacting corporate illegal behavior. Though means analysis of CSR related terms and their frequency of occurrence within firms both convicted and non-convicted firms, it was determined that non-convicted firms were less likely to be convicted of illegal corporate behavior than non-convicted firms. Thus, supporting the appropriateness of CSRs use in an enhanced model of illegal corporate behavior. Future research should specifically focus on CSR's predictive ability in identifying firm's that may have a propensity to engage in illegal corporate behavior.

In hypothesis 5, regression analysis results indicated that firm conviction had a negative impact on environmental munificence (-3.847) in the pre-SOX era. However, no such effect was found in the post-SOX era. Thus, the negative coefficient of both environmental munificence and dynamism lends support to the moderating impact of SOX.

The overall results of this research suggest that the Sarbanes-Oxley Act provides a moderating effect on prior violation committed and illegal corporate behavior. This may in turn be a result of increased punishments and harsher penalties under the Sarbanes-Oxley act. Therefore, more research is needed to examine the impact of SOX, as well other legislative efforts, to determine their overall effectiveness in deterring illegal corporate behavior.

References

- Aldrich, H. E. (1979). *Organizations and Environments*. Englewood Cliffs, NY: Prentice-Hall.
- Alexander, C. R., & Cohen, M. A. (1996). New evidence on the origins of corporate crime [Electronic Version]. *Managerial and Decision Economics*, 17(4), 421-435.
- Aupperle, K. E., Hatfield, J. D., & Carroll, A. B. (1983). Instrument Development and Application in Corporate Social Responsibility. *Academy of Management Proceedings*: 369-373.
- Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. (1985). An empirical examination of the relationship between corporate social responsibility and profitability [Electronic Version]. *Academy of Management Journal*, 2, 446-463.
- Baucus, M. S. (1994). Pressure, opportunity, and predisposition: A multivariate model of corporate illegality [Electronic Version]. *Academy of Management Journal*, 20, 699-721.

- Baucus, M. S., & Near, J. P. (1991). Can illegal corporate behavior be predicted? An event history analysis [Electronic Version]. *Academy of Management Journal*, 34(1), 9-36.
- Brickley, K. (2003). From Enron to WorldCom and beyond: Life and crime after sarbanes-oxley [Electronic Version]. *Washington University Law Quarterly*, 81, 357-401.
- Catrogiovanni, G. J. (1991). Environmental munificence: A theoretical assessment [Electronic Version]. *The Academy of Management Review*, 16(3), 542-565.
- Clinard, M. B., & Yeager, P. C. (1979). Corporate crime. New York: The Free Press.
- Davis, J. (n.d.). Effects of environmental munificence, dynamism, and complexity on principle-agents contracts [Electronic Version]. *Unpublished manuscript*. University of Texas.
- Dess, G. G., & Beard, D. W. (1984). Dimensions of organizational task environments [Electronic Version]. *Administrative Science Quarterly*, 29(5), 18-23.
- Heier, J. R., Dugan, M. T., & Sayers, D. L. (2005). A century of debate for internal controls and their assessment: An study of reactive evolution [Electronic Version]. *Accounting History*, 10(3), 39-70.
- Keats, B. W., & Hitt, M. A. (1988). A causal model of linkages among environmental dimensions, macro organizational characteristics, and performance [Electronic Version]. *The Academy of Management Journal*, 31(3), 570-598.
- Maignan, I., & Ralston, D. A. (2002). Corporate social responsibility in europe and the u.s.: Insights from businesses' self-presentations [Electronic Version]. *Journal of International Business Studies*, 33, 497-514.
- Mascarenhas, B. (1986). International strategies for non-dominant firms [Electronic Version]. *Journal of International Business Studies*, 17(1), 1-25.
- Simpson, S. S. (1986). The decomposition of anti-trust: Testing a multi-level, longitudinal, model for profit-squeeze [Electronic Version]. *American Sociological Review*, 51(6), 859-875.
- Sutcliffe, K. M. (1994). What executives notice: Accurate perceptions in top management teams [Electronic Version]. *The Academy of Management Journal*, 37(5), 1360-1378.
- U.S. Census Bureau (2008). Standard industrial classification code (sic) system. Retrieved on March 31, 2008 from <http://www.census.gov/epcd/www/sic.html>.
- Wiersema, M. & Bantel, K. (1993). Top management team turnover as an adaptation mechanism: The role of the environment. *Strategic Management Journal*. 14: 485-504.