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**'Anti-Fraud Measures and Inherent Criminogenesis in Business
Organisations'**

**Context Statement Submitted in Partial Fulfilment of the
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Degree of Doctor of Philosophy by Public Works**

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The views expressed in this research project are those of the author and do not necessarily reflect the views of the supervisory team, Middlesex University, or the examiners of this work.

1 Abstract

On one hand, this work is based on my published works in academic and professional journals as well as conference papers and presentations prepared for scholarly and professional conferences where I was invited to speak. The articles and conference papers are used as artefacts for this context statement which establishes a coherent body for the public work.

On the other hand, I draw on the professional expertise I have acquired during my career as a corporate auditor, fraud investigator, and consultant for compliance and risk management, since 2005. The motivation for this PhD work arises from my aspiration to critically reflect on my observations, analysis and experiences gathered over the last 13 years while dealing with the prevention and investigation of illegal and unethical activities in the business context.

Evaluating my professional experience and critically reflecting upon my observations in this thesis, I offer my analysis and discussion on the causation of corporate crime in organisational context. In this context, my goal is to lift the veil on the effectiveness of the conventional anti-fraud measures and strategies, which business organisations traditionally maintain for the reduction of illegal and unethical activities.

I have placed my study in the context of existing academic research on the aetiology of corporate crime and I contribute to the current scholarly discussion on the root-cause of corporate crime by elaborating on inherent criminogenesis promoting and facilitating misconduct, fraud and other deviant and illegal behaviour in organisational settings.

The original contribution of this work is that it offers a holistic perspective on the root of corporate crime, i.e. a multi-level model of criminogenesis which provides the bedrock to develop comprehensive anti-fraud actions which can holistically address corporate crime at the macro-, meso-, and micro-levels.

I believe my work has strongly influenced the practice of corporate crime prevention and my research findings contribute to the wider body of knowledge within the field of criminology and especially in the area of criminogenesis in organisational settings.

2 Acknowledgment

I would like to express my sincere gratitude to my advisor Professor Vincenzo Ruggiero for his support and immense knowledge. His guidance helped me in writing of this context statement. I could not have imagined having a better advisor and mentor for my study.

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Lastly, I would like to thank my life partner for supporting me spiritually throughout writing this thesis and my life in general.

3 Introduction

3.1 Preface

The content of this document reflects, in essence, the professional experience I gathered during my career to date, and highlights my contributions to the academic study and professional practice of reducing illegal behaviour in the business world.

At its heart, this paper is a statement of the personal learning and reflection I have made throughout my research and from the delivery of these public works. This learning and critical reflections are of great significance to myself and provide a solid foundation for my personal and professional development.

I believe that in order to succeed in making significant contributions to professional practice, it is necessary to deviate from the traditional approach anchored in the fraud triangle concept and thereby create new views and models to tackle the issue of fraudulent behaviour in the real world. I am also of the opinion that offering a new approach for devising anti-fraud strategies based on the model of criminogenesis gives a new body of knowledge to the academic world.

My point of departure on this research journey was my dissatisfaction, which was grounded in the practical limitations of the fraud triangle model that I used to examine the causes of fraud cases during my professional career. For decades, the fraud triangle model has been the mainstay for anti-fraud professionals when analysing the causes of crime in business organisations. Over the years of relying on the fraud triangle, I came to the conclusion that this model is not suitable for fully understanding the causes of fraud and corporate crime. Therefore, in order to truly benefit my company as an anti-fraud professional, I was motivated to start searching for answers in academia which I could not find in practice. This was my entry into the scholarly world to find solutions to the practical shortcomings of the fraud triangle framework, and to offer suggestions for practitioners, like myself, to remediate the conceptual flaws of this model by holistically addressing the area of inherent criminogenesis within businesses.

The further 'seed' for this research was an idea that I developed at the beginning of my career: the risk of corporate crime should eventually be present in all business organisations, regardless of their profit-related ambitions, structure or size. According to Gross (1978), businesses are *per se* criminogenic. This means companies are latently prone to committing crime, but are not necessarily criminal. Also, without meaning to, companies can create an atmosphere that invites fraud and unethical conduct as a means of meeting commercial goals (Vaughan, 1998). This notion is supported by numerous cases of fraud and corruption in business organisations of which the public has become aware during the last

decade. Interestingly, those businesses were ordinarily perceived as companies with an ethically healthy culture, developed risk management systems and effective internal control mechanisms, e.g. Enron, WorldCom, BASF, Wells Fargo, and Roche.

There is a considerable body of research and literature on the 'dark side' of organisations (Vaughan, 1999) and several theories dealing with explanations of misconduct and illegal behaviour. Here are only the most known to name showing the trajectory of the development: the concept of anomie (Durkheim, 1893), strain theory (Merton, 1938), white collar crime and differential association theory (Sutherland, 1949), theory of subcultures (Cohen, 1955), neutralisation theory (Sykes and Matza, 1957), the economic theory of crime (Becker, 1968), routine activity theory (Cohen and Felson, 1979), integrated theory (Coleman, 1987), the theory of differential shaming (Braithwaite, 1989), control theory (Gottfredson and Hirschi, 1990), control balance theory (Tittle, 1995), normalisation of deviance (Vaughan, 2005), opportunity theory (Benson and Simpson, 2009), and rational choice theory (Berger, 2011).

As number of these theories suggest, the roots and causes of misconduct and illegal behaviour especially in organisational settings are multifaceted. Yet the contemporary perspective on corporate crime presents a monolithic view of engaging in illegal activities, which sets limits on understanding crime in the organisational context (Piquero, 2006). While analysing corporate crime, scholars disproportionately concentrate their discussion on micro-level analysis (i.e. individuals), and only a few attempt to blend different domains (Simpson *et al.*, 1998; Vaughan, 2007). A possible reason for this focus on individuals as the unit of analysis is the belief that individuals are chiefly responsible for the illegal activities of business organisations.

With the focus on business organisations as a form of social construct, the literature highlights several potential reasons which may explain the cause of illegal behaviour in organisational setting (Aubert, 1952; Coleman and Ramos, 1998; Frey, 1994; Vaughan, 1999a, 2002a, 2002b, 2007):

- Business organisations tend to recruit and attract similar individuals.
- The cultural, ethical, and mental diversity of a company is not always considered to be an integral part of the business strategy.
- Rewards are given out to those who display the characteristics of the 'company man'.
- Loyalty to the company, especially long-term, is encouraged through social interaction.
- Risk of the abuse of power arises from the fact that managers are in privileged positions that could be exploited even in an organisation with a solid governance system.

In my eyes, these criminogenic factors represent merely a fraction of all the possible elements beneficial to the emergence of corporate delinquency in business. Therefore, my thesis explores and discusses the range of conditions which influence a company's predisposition towards unethical or illegal conduct.

I argue that the probability of crime emergence in a business scenario hinges on the criminogenic variables harboured at an individual, organisational and environmental level, meaning that an anti-fraud strategy requires a multi-level approach in order to consider all the main carriers of criminogenesis and also the interaction between those variables. The multi-level view for analysing the causation of crime is essential for successful reduction of crime in the business context. Explanations of corporate misconduct at a single level of analysis will produce only partial understanding of the phenomena involved. Consequently, a fractional explanation of crime can only lead to a limited strategy for crime prevention and control (Kramer, 2010).

Furthermore, I debate in my thesis that the conventional anti-fraud activities employed by companies fail to recognise the main carriers and drivers of criminogenesis, the relationships between them and consequently to effectively address illegal and unethical behaviour at its source.

3.2 Point of departure

3.2.1 My professional background

I came to be interested in the aetiology of fraudulent behaviour and researching criminogenesis in an organisational context through my professional career. Since 2005, I have been concerned with auditing, compliance, and risk management in businesses, with a strong emphasis on fraud prevention, detection and investigation.

In my professional journey, I went through three different phases in my anti-fraud-management career – as a fraud investigator, a consultant for risk management and compliance, and as a corporate auditor. Each of three phases offered me distinct opportunities to learn and to develop different perspectives on the field of corporate crime. The first gave me an in-depth insight into the realm of corporate crime from an investigative point of view. The second allowed me to address illegal and unethical conduct from the preventative perspective. The third helped me to apply both my investigative and preventive experience to tackle the phenomenon of corporate crime holistically in a business context. Through my work experience, I believe I have a unique opportunity to cultivate these three perspectives and draw on them throughout my PhD research.

Also, in the course of my professional continuous education I acquired Certified Internal Auditor (CIA), Certified Fraud Examiners (CFE) and Certification in Risk Management Assurance (CRMA) qualifications from the Chartered Institute of Internal Auditors and Association of Certified Fraud Examiners, which are internationally acknowledged for high professional standards in auditing, fraud investigation, and risk management practice.

At the beginning of my career, like other practitioners, I relied heavily on the fraud triangle model while scrutinising the cases which I was commissioned to investigate. My duties in terms of fraud identification and assessing fraud-related risk during audit activities are defined in and guided through several auditing standards. The most important are the following:

- The Statement on Auditing Standards 99 (known as SAS 99) issued by the AICPA¹: “Consideration of Fraud in a Financial Statement Audit”,
- The International Standard on Auditing 240 (known as ISA 240) issued by the IFAC²: “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”,

¹ American Institute of Certified Public Accountants.

² International Federation of Accountants.

- The paper issued by the AICPA: “Management Antifraud Programs and Controls. Guidance to Help Prevent, Deter, and Detect Fraud”.

The weakness of the above guidelines is that the professional accounting and auditing associations (such as AICPA and IFAC) were strongly inspired by the ACFE³ view on fraud while devising the above mentioned standards. As a result, those standards heavily rely on the logic and rhetoric of the fraud triangle model in guiding auditors on how to address fraud suspected or identified during audit activities.

Over time, my professional experience has taught me that the fraud triangle is not always a useful tool to study and understand the complex nature of the illegal activities and deviant behaviour in the business context. Furthermore, I came to this conclusion based on my practical experience that the application of the fraud triangle’s logic does not necessarily improve the assessment of fraud risk.

The perceived limitations of the triangle prompted me to formulate questions and to search for other models, mechanisms and concepts facilitating the detection of fraud, explaining the causes of fraudulent behaviour and supporting the development of effective anti-fraud solutions. In so doing, I did not subscribe to the mainstream thinking promoted by the ACFE among practitioners and started actively look for the answers to expand my ‘actionable’ knowledge in order to enhance the efficacy of my anti-fraud efforts and benefit the businesses I work for.

This motivated me to embark on PhD research with the aim of improving common anti-fraud prevention practices in the real world and to breach the gap between the academic and practical views by introducing a further perspective to practitioners⁴ on how professionals can holistically counter fraud. I truly believe that anti-fraud specialists can expand their knowledge by considering findings from the academic world and can strongly benefit from scientific research on the causes of fraudulent activities.

In my opinion, the methodologies applied by practitioners to fraud prevention, deterrence and detection have been heavily shaped by the fraud framework postulated in the triangle model.

In this sense, my research journey began in my disappointment that the fraud triangle model could offer me only a limited explanation of the causes of fraud in the organisational context. At the same

³ Association of Certified Fraud Examiners.

⁴ I define ‘practitioners’ as those who are charged with fraud prevention within organisations, or those who investigate possible fraud in a business context.

time, the fraud triangle is my point of entry into the academic world, where I was able to find the missing answers to the questions which I brought from practice.

Furthermore, there are several simple reasons as to why it is vital to study business organisations from a criminological point of view. Firstly, businesses have a substantial influence on society and the economic wealth of entire countries. The importance of business organisations, especially large companies such as global corporations, increases with the growing power of international trade and the global economy (Coglianese, 2007; Judge *et al.*, 2008). Secondly, employees spend most of their working day as part of a business organisation. Consequently, organisations strongly influence employees' behaviour, views and thinking even outside of work (Monks, 2007). Thirdly, it is important to understand the origin of crime in businesses not only to secure economic value, but also to prevent the potential spread of illegal and unethical behaviour to the wider community, other companies and even entire industries.

In summary, companies are extremely important and influential in our lives since they not only create and generate national income and economic wealth, but also are constructed to be social and cultural systems (Coglianese, 2007). In order to understand the influence of social systems on human beings, it is critical to study the processes and forces within the organisational environments that guide, pressure, induce or constrain individuals in their conduct (Judge *et al.*, 2008). Otherwise, without this understanding, addressing corporate crime will remain an elusive problem for companies, policymakers, regulators, and law enforcement bodies.

3.2.2 Understanding of crime-related terminology used in academia and practice

Defining corporate and organisational crime is challenging, given the diversity of criminal behaviour, factors triggering illegal behaviour, and variances in motives. Literature on organisational delinquency uses several terminologies to describe crime in a business context (Simpson *et al.*, 1998). Frequently used expressions include “corporate crime”, “corporate fraud”, and “organisational crime” (Yeager, 2016). However, there is a consensus that crime committed by, and in, business organisations represents a type of organisational misconduct (Paternoster, 2016).

Shover and Hochstetler (2002, p. 2) defined organisational crime as “crime committed by officers, managers or employees of legitimate formal organisations in furtherance of organisational interests and goals”. Gottschalk and Glaso’s (2013) definition is similar: crime committed by organisational members with the aim of benefiting the organisation. Other terms include: corrupt organisational behaviour (Pinto *et al.*, 2008); organisational misbehaviour (Linstead *et al.*, 2014); and organisational/corporate misconduct (Vaughan, 1998).

Criminology defines corporate crime as criminal activities committed either by a business organisation⁵ or by employees⁶ acting on behalf of a business organisation, and in the economic interest of a business organisation (Braithwaite, 1984, p. 6). Corporate crime is, therefore, congruent with organisational crime (Tillman, 2009) and includes acts in violation of criminal, civil, and administrative law (Wang and Holtfreter, 2012, p. 154). It can be said that corporate crime is a form of **fraud**⁷ in business organisations and manifests itself in several illegal activities, categorised as administrative, environmental, financial, labour, manufacturing, and unfair trade practices.

Corporate crime can overlap with white collar crime, i.e. illegal actions committed by upper-level individuals in corporate scenarios; however, the term is not limited to a specific hierarchical position of an employee (Sutherland, 1949; Simpson *et al.*, 1998). Corporate crimes may be perpetrated by various actors in the organisational environment (Clubb, 2014). Furthermore, perpetrators of organisational crime may act individually, e.g. bribing third parties, or as a group, e.g. intellectual property infringement (Linstead *et al.*, 2014). Pinto *et al.* (2008) found it is not uncommon for a group of individuals in an organisation to collude to commit criminal acts; most conceptualisations of

⁵ The term ‘business organisation’ is used throughout this paper as a general description for corporations, firms, and companies.

⁶ Crime committed by employees against a business organisation is characterised as “occupational crime” (Wells, 2005, p. 44).

⁷ Fraud is defined in Miriam-Webster’s Dictionary of Law (2018) as “any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage.”

corporate crime concern illegal acts perpetrated by a group of employees acting together, such as the executive team, the board of directors, or even a department within an organisation.

On the other hand, the business world as a pendant to the scholarly realm is formed and heavily influenced by pragmatism. Any complex terms or definitions are shortened and simplified to advance a quick grasp of the core of complexity. The definitions of organisational and corporate crime are not an exemption from this rule. In fact, practical discussions do not try to make any difference between white-collar crime, organisational crime, corporate crime, occupational fraud or employee illegal behaviour. Interestingly, practitioners often tend to describe any of misconduct, wrongfulness, or illegalities committed by employees in business context predominantly as just 'fraud'. From a practical point of view, it is simpler and straight to the point, whereas from an academic point of view celebrating rigorous research and a concise definition it might simply be wrong.

A search for a legislative definition of fraud does help to breach the gap between academic and practical 'lingua franca'. For instance, English law has no statutory definition of fraud and the legislation such as the Fraud Act 2006 or the Bribery Act 2010 merely define sources and means of committing fraud (Taylor, 2011).

In academic world, fraud is used as a generic description for deceitful means and techniques used by individuals to gain an advantage over another by false representations, trickery, cunning and any other unfair ways (Albrecht & Albrecht, 2004, p. 5). Fraud is perceived as an elusive term referring to a criminal offence involving theft of assets through deception and falsification (Power, 2013, p. 526). Sometimes the academic literature categorise fraud as 'white collar' crime (Geis & Stotland, 1980) or incorporates it within 'financial crime' (Power, 2013, p. 526).

Practitioners usually refer to fraud as "deception or misrepresentation that an individual or entity makes knowing that the misrepresentation could result in some unauthorised benefit to the individual or to the entity or some other party" (Ernst & Young, 2009, p. 1). This definition includes not only individuals (employees) but also the entity (the business) and other party (e.g. vendors) as the agents involved in fraudulent activities.

What does it mean for this context statement that aims to address practical issues on the reduction of illegal behaviour in organisational behaviour with the knowledge of academia?

It is commonly accepted that in order to buy people (including employees across the entire organisational hierarchy) into any new concepts, it is vital to engage them in a way they understand even though a such approach might be regarded as not entirely correct and might prompt new questions or further confusion. The fact is however that simplicity is highly valued in the real world.

Therefore, I follow the practice in the real world and will ignore any nuances among the definitions of illegal behaviours for sake of a better transition between the academic and practical world and simply use in my narrative 'fraud' and 'anti-fraud management' to amalgamate diverse definitions of illegal behaviour in the business context and the respective counter actions. To this end, I use the term 'fraud' by considering a broader view on potential perpetrators (individual, group and organisation) and the range of the illegal activities in the business context.

Another challenge in a proper transition between professional practice and academia lies in the term 'unethical behaviour'. From a legal perspective, the term 'criminal conduct' does not always cover the unethical behaviour of business organisations and their employees: not all unethical activities are illegal, and *vice versa* (Clinard, 1983). However, it does not follow that unethical conduct is acceptable, or deserves less attention in the corporate world, because unethical behaviour is not necessarily illegal (Adams and Balfour, 2011).

Furthermore, it is difficult to define unethical behaviour in reality: there is no universal set of rules for ethical conduct (Clegg *et al.*, 2007). The crucial point is what counts as 'unethical', since ethical norms may vary depending on an individual's views and culture (Clinard, 1983). For example, working with suppliers that use child or slave labour, avoiding corporate tax, and exploiting tax loopholes are legal in some countries, but can be regarded as unethical practices (Clegg *et al.*, 2007).

Bearing in mind these challenges, I attempt to better understand the root-cause of both the illegal and unethical activities of business organisations and their members by analysing the range of criminogenic antecedents which in my eyes can facilitate both illegal and unethical conduct.

3.2.3 The essence of fraud triangle

Joseph Wells published a central book for practitioners “Occupational Fraud and Abuse” in 1997, where he introduced the concept of the fraud triangle by connecting the field of fraud investigation and criminology. In his publication, Wells (1997, p. 11) explains the causes of delinquency in businesses as the combination of three elements which jointly lead to fraud:

- **opportunity** to commit fraud such as the absence of controls or flaws in the given internal control system,
- **pressure** or **incentives** to engage in illegal activities, which is regarded as a reason to commit fraud,
- the **attitude** and capacity of perpetrators to **rationalise** their fraudulent actions.

Once these three conditions coincide, illegal activities most likely to occur since perpetrators feel the temptation to indulge in fraudulent behaviour in the presence of these elements.

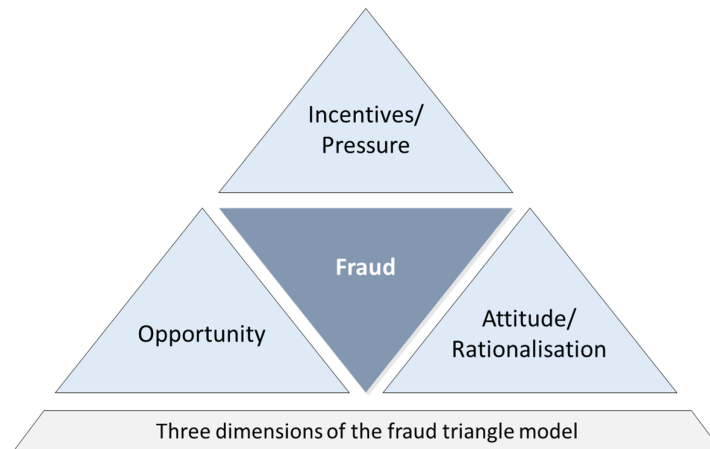


Figure 1. Fraud Triangle.

Source: Joseph T. Wells (1997)

Arguably, these three dimensions provide some of explanation as to why individuals might engage in illegal activities, but they do not offer a full intellectual grasp of complex phenomena such as fraud and corporate crime. Wolfe and Hermanson (2004) see the triangle model as incomplete and suggest a “fraud diamond theory” by adding a fourth element to the triangle in order to explain the illegal behaviour displayed by individuals – the perpetrator’s ‘capability’. In addition to factors such as opportunity, incentive, and morals, the fourth factor ‘capability’ refers to the personality traits of an individual and emphasis individual ability to carry out fraudulent activities. According to this view, five components represent the capability for fraud: position, intelligence, confidence, coercion skills, and the ability to deal with stress (Yusof and Lai, 2014, pp. 427-428).

The addition of a new component to the fraud triangle does not fully enhance the model since the fraud triangle concept lacks *per se* a systematic approach for identifying and analysing the criminogenic antecedents of illegal behaviour in the organisational context by considering the micro-, meso- and macro-levels. Furthermore, the fraud diamond model is less well known in the profession and rarely used by practitioners to analyse fraud cases and to devise prevention methods. The most likely reason for this is that the transitions from the 'fraud triangle' to the 'fraud diamond' is not promoted by the ACFE.

3.2.4 Issues observed in practice and practical limitations of the fraud triangle model

I have observed during my professional career that practitioners who are charged with fraud prevention and investigation within organisations strongly rely on the fraud triangle model while analysing the causes of criminal cases at business organisations. The fraud triangle framework is regarded by many professionals as the contemporary model for understanding the causation of fraud.

The fraud triangle model was introduced by Joseph Wells (1997, p. 11), the founder of the Association of Certified Fraud Examiners (ACFE) and it is heavily influenced by Cressey's research (1953) focusing on the individual criminal offender prosecuted for embezzlement. Accordingly, the fraud triangle suggests that the probability of the commission of fraud reaches its highest level at the conjunction of three decisive factors: opportunity linked to weak organisational control, personal pressure related to the individual circumstances of the offender, and rationalisation of illegal activities.

While the fraud triangle model is highly popular among anti-fraud practitioners as a means of analysing the causes of engaging in illegal behaviour, in my view the fraud triangle model provides a limited view of the root-causes of fraudulent activities and therefore not fully suitable to develop effective counter-measures. As a result, the conventional anti-fraud activities employed by companies fail to recognise the main carriers and drivers of criminogenesis or the relationships between them, and consequently they do not effectively address illegal and unethical behaviour at its source.

Relatively little attention has been paid in the business worlds to the idea that illegal and unethical practices are not primarily influenced by deviance in individual behaviour but is rather a product of the criminogenic settings in a business organisation. Therefore, the prospect of criminal engagement can also arise from contact with criminogenic systems, and employees' adaption to organisational behaviour norms which do not correspond to the highest ethical and moral standards (Needleman and Needleman, 1979). Furthermore, Stanley Milgram's (1974) experiments have shown that ordinary people are capable of engaging in immoral conduct when they act under specific (criminogenic) circumstances and conditions.

The rhetorical strength of the triangle model is predicated on its simplicity and seemingly logical explanations which can be easily followed by heterogeneous audiences including non-criminologists and non-experts in fraud investigation. Yet, the appealing effect of the fraud triangle is deceptive. The causes of illegal behaviour in organisational contexts are more complex and just because an explanation seems to be obvious, simple and logical, does not mean that it is necessarily correct.

In my view, the fraud triangle model has several flaws, which I will elaborate on below.

Firstly, the model reduces the complex nature of fraud down to three elements (pressure, opportunity, or rationalisation), marginalises any sociological and cultural effects and fully ignores the diversity of criminogenic influences which inherently impacts organisational members in a social group, e.g. societal pressure, structural forces, unethical organisational culture, poor leadership, unquestioning loyalty, and discrimination of 'cultural resisters'.

The triangle model does not represent fraud as a collective effort but rather the action of a loner – a single person taking advantage of weak internal controls and who is driven by a desire for personal enrichment. Therefore, the focus of the model is on the individual perpetrator and not on the organisational settings and atmosphere that may facilitate and encourage fraudulent actions.

I believe that the fraud triangle might find its application in analysis of cases with a lone employee as a single perpetrator (e.g. fraud committed by 'rogue traders' at banks Barings, Société Général, UBS). However, the triangle is less suitable for discussing misconduct or crime perpetrated by organisational leaders and management who possess excessive power and misuse the organisation as perpetrator for fraudulent schemes against employees, customers and stakeholders, e.g. 'rogue leaders' such as Robert Maxwell or Bernard Madoff. Also, the concept does not offer a practical solution to cases involving entire organisations, where fraudulent behaviour was an internal norm, e.g. Enron, Siemens, Wells Fargo (Kulik *et al.*, 2008; Morang, 2016).

Secondly, the fraud triangle model implies that none of the three dimensions are sufficient by themselves to trigger fraud, and the model does not clarify which one of three conditions (pressure, opportunity or rationalisation) is the strongest contributor to a fraudulent business climate. This makes a case for assuming that business organisations should equally address all three dimensions to reduce fraud. An opportunity to commit fraud, expressed in deficiencies of internal controls, appears the easiest to spot, but the identification of pressure to commit fraud is challenging, as this is a subjectively perceived condition, varying from individual to individual. More difficult is the quest for how to observe individuals' capabilities to justify and rationalise fraudulent acts, which similar to the 'pressure' factor also represents a personal characteristic.

Thirdly, Messina (1997, p. 37) advises that at same point of time, every person experiences pressure as well as rationalising his or her actions. This would therefore make every person a potential fraudster. Based on the above, I believe that the fraud triangle model is deceptive in terms of its contribution to the identification of potential fraudsters. For this purpose, the model is not sophisticated enough to fully identify behavioural characteristics which explain the fraudsters' psychology.

Fourthly, the emphasis on two individual-related elements such as pressure and rationalisation suggest that companies have to evaluate the behaviour, mindset and attitude of every employee for effective fraud prevention and detection. The fraud triangle raises unrealistic expectation that business organisations control individuals to ensure compliant behaviour.

Fifthly, the strong focus on internal controls promotes organisational surveillance in businesses and fosters a climate of suspicion against individuals. The model conveys the message that the companies need to keep a closer eye on individual activities and behaviour, as employees are the key source of fraud risk.

Sixthly, practitioners and companies focus their prevention efforts at the opportunity which has the most manageable conditions that can be directly influenced by them. As a result, fraud prevention effort is downsized in practice to the organisation's internal control system, which is seen as the main reason for the occurrence of fraud. The two factors 'pressure and rationalisation' are present in the model but are perceived by practitioners as difficult to measure and manage, so that the practical focus lies solely on eliminating of opportunity as the most pragmatic way to abolish fraud. Furthermore, the other factors, such as organisational culture, social settings or leadership style are not acknowledged and remain outside the scope of anti-fraud management. Consequently, the array of fraud solutions introduced by businesses is restricted to stronger and stricter controls, which is justified by practitioners using the fraud triangle model for fraud control.

3.2.5 Example of application of the fraud triangle for prevention in practice

In terms of my previously outlined observations regarding the practical flaws of the fraud triangle, Table 1 clearly reveals the limitation of the fraud triangle. I have frequently observed how the anti-fraud community⁸ uses the model in practice. Practitioners populate the table with information data taken from the Statement on Auditing Standards 99 (SAS 99), interviews with employees, knowledge of publicly known cases, internal fraud cases from the past, and the professional judgment of the anti-fraud professionals.

Table 1 – Application of the fraud triangle for assessment of fraud risk exposure

| Employees | 1. Incentives/ Pressures | 2. Attitudes/ Rationalisation | 3. Opportunities to commit fraud | 4. Potential fraud schemes |
|--|-----------------------------|----------------------------------|-------------------------------------|-----------------------------------|
| Chief Executive Officer | <yes/no> | <yes/no> | <yes/no> | <description of fraud schemes> |
| Chief Operating Officer | | | | |
| Chief Financial Officer | | | | |
| Chief Information Officer | | | | |
| Head of Procurement | | | | |
| Etc. | | | | |
| Management Unit A | | | | |
| Finance Team A • Finance Leader • Controller • Treasurer • Other | | | | |
| Sales Team A • Sales Leader • Individual Salesman | | | | |
| Etc. | | | | |
| Management Unit B | | | | |
| Etc. | | | | |

In the first instance, practitioners attempt to allocate the fraud triangle components to various job holders across the business by assessing whether those employees might be subject to any of the three elements of the fraud triangle. In doing so, professionals rely on risk factors for components of the fraud triangle listed in the Statement on Auditing Standards 99 “Consideration of Fraud in a Financial

⁸ By anti-fraud community, I refer to forensic accounting practitioners, fraud examiners, financial crime investigators, and anti-fraud professionals.

Statement Audit” issued by the AICPA (AICPA, 2002, p 1749-1753). The overview of these factors is not exhaustive and represents only a selection of the factors which can be considered for analysis. The list of risk factors is displayed in Annex I.

Having performed the assessment in terms of the three components of the fraud triangle, practitioners next have the challenge to describe potential fraud schemes which could be committed by a specific employee (the last column in table 1). The description of possible fraud activities is based on fraud taxonomy (Fraud Tree in Figure 2) developed by the Association of Certified Fraud Examiners (ACFE, 2014a).

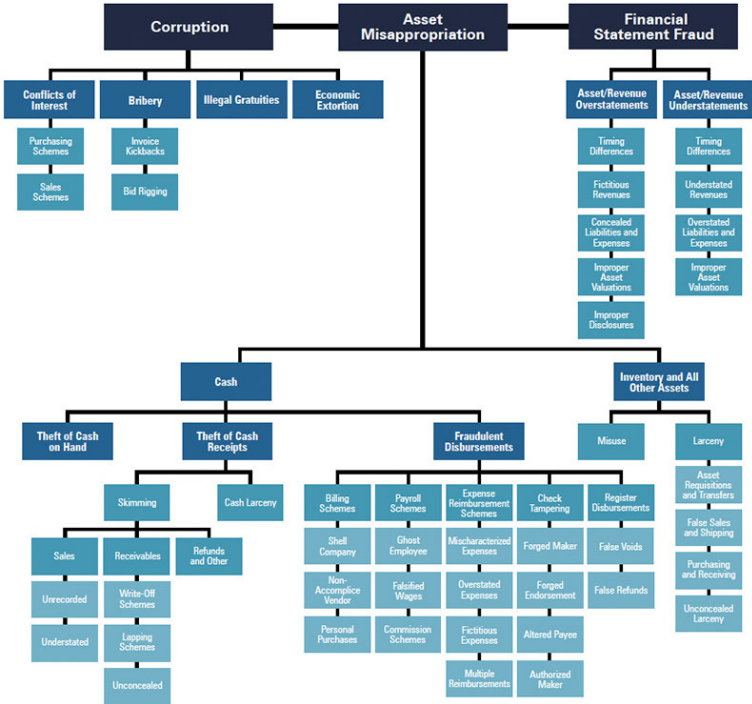


Figure 2. ACFE’s Fraud Tree

Source: ACFE (2014a)

In my view, this example of the application of the fraud triangle framework clearly demonstrates how the fraud triangle is being misinterpreted, misused, and pressed into applications for which it is not intended.

The phenomenon of fraud in business organisation is multifaceted and complex. Yet, the fraud triangle model only focuses on individual-specific traits and attributes while disregarding group dynamics, social and organisational factors and ignoring further antecedents of fraud. Hence, the explanation of fraud causation cannot reasonably be simplified into the geometric form of a triangle (Huber, 2017).

In practice, it might be the case that fraud is committed by a single individual acting alone, but it is not obvious how anti-fraud practitioners should perform psychological analysis of employees to identify the signs of 'pressure' and 'rationalisation', which are usually less observable or diagnosable in the field. Also, it is not clear what the logical connection is between opportunities to commit fraud (exemplified in specific fraud schemes) and specific signs of 'pressure' and 'rationalisation'. For practical users of the fraud triangle concept, it appears impossible to connect three points of the fraud triangle. This challenge and the ambiguity of the fraud triangle concept might lead to inaccurate or incomplete conclusions for fraud reduction.

As the result of its inherent weaknesses, the fraud triangle framework should not be seen as a sufficiently reliable model for fraud prevention (Lokanan, 2015). In light of its conceptual flaws, it is difficult to grasp why anti-fraud professionals continue to use the fraud triangle model for fraud avoidance.

The example above plainly illustrates that anti-fraud practitioners are often unsure how to decode the vague framework of the fraud triangle and wonder how to translate the notions of 'pressure' and 'rationalisation' into practice. It remains a conundrum how to allocate each component of the fraud triangle to an individual job holder occurs in practice (Table 1).

When looking for alternative approaches and models for fraud prevention, anti-fraud professionals have to widen their horizon by embracing concepts which also target institutional, structural and social forces that nurture and facilitate fraud. Otherwise, the antecedents of fraudulent behaviour in organisational context will escape scrutiny and remain unaddressed.

3.2.6 Tension between practice and science

There are several 'clashes' between academic theories and professional practice on fraud causation, since the two areas are very different. In professional practice, the Association of Certified Fraud Examiners promotes the fraud triangle concept as the cornerstone of fraud root-cause analysis, prevention and detection (ACFE 2016). On the contrary, academic discussions points out that "...focusing fraud research on the traditional fraud triangle and other simple geometric metaphors obstructs meaningful research into fraud..." (Huber, 2017, p. 33). The fraud triangle is not an answer for all types of fraud and its three-dimensional structure does not fully explain why fraud is committed. In this context, Kassem and Higson (2012) believed that the fraud triangle has a range of weaknesses, such as the use of two non-observable attributes, i.e. pressure and rationalisation, and the lack of information that could be used to address management override and collusive behaviour. Following from this, alternative fraud models should be considered by practitioners in order to ensure that the weaknesses and limitations of the fraud triangles are resolved (Higson, 2003). Albrecht *et al.* (2008) suggested that the perceived opportunities could be addressed through reducing the weaknesses of the internal controls and strengthening the role of auditors. Nevertheless, businesses do little to practically mitigate the perceived pressure or the rationalisation aspect included in the fraud triangle.

The work of Sykes and Matza (1957) on neutralisation theory demonstrates how perpetrators normally apply 'the techniques of neutralisation' to rationalise, justify and create convincing 'excuses' for their actions. However, there are no references to neutralisation techniques in the discourse of the fraud triangle promoted by the ACFE regarding how individuals are shielded from feelings of guilt (Lokanan, 2015). Practitioners opt for an easy option to tackle the problem of fraud by addressing the observable attribute and decrease the opportunity to commit fraud exemplified in the flaws of internal control systems (CIMA, 2008, p. 13). Though, fraud is a multifaceted phenomenon which cannot be only resolved by reducing the opportunities to perpetrate fraud, since those opportunities do not only exist *per se* in real life, but also are deliberately created by those who engage in fraud, in some cases even in a collective way (e.g. collective fraud).

On one hand, social science is ahead of practice with its theoretical and conceptual discussions on fraud causation. On the other hand, practitioners have difficulties in putting academic theories and concepts into practice. One of the reasons for this could be that "...researchers and practitioners do not necessarily share the same mind-set and rules for learning from experience..." (Malaurent & Avison, 2017, p. 922). It is not uncommon for scientific and professional experts to perceive and interpret the same observations differently.

Another reason could be that anti-fraud professionals are detached from the process of how those theories and concepts are generated, discussed, shaped and developed. Conversely, scientists might have difficulties in sufficiently addressing practical issues in academic discussions since there is a lack of insight into what drives and influence practitioners, and the complex and often conflicting environment in which anti-fraud professionals have to operate while tackling the problem of fraud.

Therefore, it is not surprising that scholarship and 'real life' practice might appear be separated by the same quest of how to prevent fraud. In fact, both types of knowledge (i.e. theory and praxis) are not necessarily separate, but rather give different perspectives on the same issue, which naturally creates some dynamic tensions. Still, fostering dialogue between both academic and professional communities might help to get a grip on the tensions between the 'real life' practice of anti-fraud management and scholarly research on fraud causation.

It is indisputable that the knowledge and information transfer between praxis and science is vital. For this purpose, I believe, praxis should regularly inform science and *vice versa*. The information flow and knowledge interchange should be bidirectional, so as to devise a framework which best addresses fraud causation and fraud prevention in conceptual and practical terms.

3.3 My motivation, research aims and objectives

Coming from the practice into academia, I strive in my PhD to work out the answers to my questions on how to prevent fraud in the business environment. To solve my practical problem through research, I address the limitations and weaknesses of the fraud triangle approach to find a more effective and functional way to successfully tackle issues arising from fraud in an organisational context. Throughout my study, I endeavour to combine scientific, work-based and research practices to reform my own anti-fraud actions and practice. Positioning myself at the interface of social science and practice helps me to benefit from social scientific findings and discussions on causation of fraud in an organisational context. In this context, I attempt to enrich the practical toolkit of anti-fraud practitioners by importing social scientific concepts and theories into practice. Following on from the issues observed in the field and my practical experience with the fraud triangle model, one of my motives for this PhD is to address the practical weaknesses of the fraud triangle in order to better understand the root-cause of fraud carried out by business organisations and their staff. My further goal is to suggest a holistic perspective on the root of fraud in an organisational context. By this I mean a multi-level model of criminogenesis supporting practitioners to develop operational anti-fraud strategies. To this end, I strive with the knowledge of academia to contribute to improving the effectiveness of the conventional anti-fraud measures, which business organisations traditionally maintain for the reduction of illegal and unethical activities. My ultimate goal is to enhance the quality of professional practice by contributing to professional knowledge.

Academic discussion and research into corporate crime provides sound theories and models on the causes of engaging in organisational delinquency (Coleman, 1992; Gross, 1978; Leonard and Weber, 1970; Needleman and Needleman, 1979). However, the theoretical discussion on corporate crime and the organisational features which facilitate corporate illegality, appears to be less connected with the ultimate question as to what the criminogenic antecedents in an organisational environment are and whether organisational criminogenesis can be successfully reduced by the conventional anti-fraud activities utilised by businesses. While addressing this point, the aim of the research is to attempt to identify the missing nexus by means of the following:

- Analysis of the source of companies' criminogenesis and as a result the origin of corporate crime.
- Development of an understanding of the criminogenic conditions, forces and processes within organisations.
- Analysis of the scope and effectiveness of the benchmarked anti-fraud solutions employed by business organisations.

- Putting forward a range of practical suggestions on anti-fraud measures that could effectively help organisations manage and counter illegal and unethical practices.

Within this research, I define the phenomenon of inherent criminogenesis⁹ in the organisational context as an amalgamation of organisational conditions, processes and forces that intrinsically facilitate and coerce an agent into engaging in criminal behaviour. Here, the agent might take the form of an organisation, a social group, or an individual. In this sense, the adjective “criminogenic” describes the crime-facilitative and/or crime-coercive traits of organisational structures and settings that tend to lead to and promote (corporate) crime (Needleman and Needleman, 1979).

In order to achieve the aims of my research, I focused on answering the following questions:

- What are the intrinsic factors, conditions, processes and forces in the social settings that influence employees and businesses to be inclined towards engaging in illegal activity, malpractice, and unethical behaviour?
- How can organisational criminogenesis affect individuals and the overall organisational propensity towards criminal practises?
- What is the scope of traditional anti-fraud measures and how effectively can they mitigate the effect of criminogenic antecedents?
- What is the influence of anti-fraud measures on the overall management of the inherent criminogenesis of business organisations?
- What practical measures and mechanisms are required to enhance the effectiveness of traditional anti-fraud management?

Throughout my articles published from 2005 onwards, I have attempted to demonstrate consistent argumentation and discussion regarding the inherent criminogenesis of business organisations and review the effectiveness of conventional anti-fraud actions to manage criminogenesis within organisations.

My research is built on the hypothesis that - regardless of their profit ambitions and size - business organisations are criminogenic *per se*, i.e. prone to crime and that the conventional anti-fraud measures fail to properly address criminogenic antecedents. Different organisations may have different risk exposure and predispositions to crime but I endeavour to justify my position that there is no company entirely without criminogenesis. Consequently, I argue that illegal behaviour is a

⁹ The term ‘criminogenesis’ is derived from Latin and comprises the roots *crimen* meaning "accusation, verdict" and *genesis* referring to "birth, creation, generation".

'normal' by-product of legitimate corporate activity. In this context, I discuss the anti-fraud actions and strategies utilised by business organisations in order to maintain a healthy organisational environment and prevent the organisation from engaging in fraudulent and unethical behaviour.

Based on practical grounds and my research, I aim to demonstrate in my context statement that effective anti-fraud management must deal not only with individual explanations for fraudulent activity, such as economic pressures, unjust treatment, and personality traits (Coleman, 2002; Croall, 2001; Wheeler, 1992) but it must also address the range of criminogenic antecedents at the micro-, meso- and macro-levels (Vaughan, 1996, 1998). This means that a comprehensive anti-fraud management system should involve measures focusing on the criminogenic traits of three elements: individuals, business organisations and the business environment.

Following from the above, the **first aim** of this research to address practical shortcomings of the fraud triangle model and to develop an integrative model of inherent criminogenesis which will explain how criminogenic conditions, processes and forces originate and facilitate illegal and unethical activities in an organisational context by interacting with individual, organisational and environmental factors. In this respect, the model aims to integrate the range of criminogenesis in an organisational context such as blind loyalty and unquestioning compliance, coercive groupthink, the herding effect, lack of critical thinking and challenging of management decisions, neutralisation processes, normalisation of deviance, rational choice, and cost-benefit thinking (Ashforth and Anand, 2003; Bommer *et al.*, 1987; Frey, 1994; Hamilton and Sanders, 1992; Vaughan 2002a). The introduced model of inherent criminogenesis is regarded as the basis for the ensuing discussion on the effectiveness of conventional anti-fraud measures and strategies.

The **second aim** is to evaluate the effectiveness of anti-fraud strategies and actions that are devised and implemented by business organisations in order to prevent and detect illegal and unethical activities in the business environment. With this in mind, I analyse conventional anti-fraud measures and strategies and address the question as to whether traditional anti-fraud activities are suitable for mitigating the inherent criminogenesis within organisations.

The **third aim** of the research is to present and discuss the reasons as to why anti-fraud actions generally fail to effectively reduce corporate crime and what further measures are required to eliminate the weaknesses in current anti-fraud practices and enhance the effectiveness of anti-fraud actions. This discussion draws on the previously-developed model of inherent criminogenesis with reference to current practice in the reduction of corporate crime.

3.4 Limitations of this research

One of the limitations of this research arises from the fact that corporate crime is a very sensitive subject for many business organisations, and they are unwilling to reveal any fraud cases to public and how they deal with this topic in practice. Further limitations arise because of the difficulties encountered by detection and prosecution and hence a high dark figure of such crime. Therefore, the scope of the data analysed has considered only publicly known corporate fraud cases, cases discussed in academic literature and 21 cases which I investigated during my professional career. These cases of corporate crime however are likely to represent merely the 'tip of the iceberg' in relation to the real number of organisational crime events (Webley and More, 2003). Therefore, the root-cause analysis of the larger number of cases might have brought to light further findings which have not been taken into account in my study.

Even though the literature review strongly contributes to the development of a model of criminogenesis, the basis of the knowledge in this study is my professional observations and practical experience. As such, this source of knowledge is inherently subjective, which represents one of main weaknesses of this study.

On one hand, my 'field' background equipped me with the necessary practical experience to inform my research. On the other hand, this experience defines and influences how I respond to data and research findings, which could be potentially clouded by my bias, thus limiting the objectivity of my research. For instance, I have made several critical judgements in my capacity as researcher on how to categorise, de- and re-contextualise the information (Starks and Brown-Trinidad, 2007). As Vaughan (2004, p. 319) highlighted "we always have some theories, models, or concepts in mind", which we unconsciously rely on while analysing the newly acquired information. I am aware that my assumptions might limit the interpretation of research data and distract me from seeing alternative explanations of my findings, so the possibility remains that other researchers or professional colleagues may interpret the same data differently. In this context, I acknowledged that as human being I am also socially situated and constructed (Engward & Davis, 2015). To address this limitation, I endeavour to apply reflexivity within the research process to challenge my own stances, theoretical beliefs, and experiences, in order to minimise the influence of potential bias or prejudice.

In addition, I stopped the data collection at the point where I perceived a state of theoretical saturation, meaning that the concepts have been satisfactorily explored. This perception is also subjective and further observation and data acquisition might have led to new concepts or explanations. Therefore, there is always a risk of failing to generate a substantive theory/model despite the time and energy devoted to it.

Lastly, the end result of my research is a theoretical model of criminogenesis aiming to explain the causation of corporate crime, which requires rigorous testing and potentially further refinement.

The main strength of coming from 'the field' might represent at the same time the main weakness of this study, since throughout research I primarily endeavour to acquire 'actionable knowledge' that I can put in practice to improve fraud prevention and to solve the practical issues arising from the fraud triangle. This effectively means that during information collection and analysis I consciously disregarded ideas for the fraud reduction which, I felt, would be impractical in real life and impossible for me to implement in my company. For instance, one of the impractical ideas for fraud prevention is the idea of re-education of offenders. This effectively means that the businesses should not necessarily dismiss staff who commit fraud, but keep the employer-employee relationship with such individuals and take the responsibility to change the attitude and mind-set of the culprit. In doing so, the company would take pre-emptive measures to reduce the risk of repeat offending, exemplified in the possibility that a former fraudster might again engage in illegal activities, but with a different company and cause damage and losses elsewhere. This short example demonstrates that I was constantly in the process of negotiating different objectives, to strike a balance between the scientific approach and the pragmatism of professional life, which was one of the key challenges for me during my research.

The next limitation is that corporate crime occurs in many diverse forms depending on the type of business and its structure. Since contemporary business structures across industries are moving towards greater automation and digitalisation, with less human interaction, the usefulness of some research findings and conclusions may be limited predominantly to organisations in their conventional rather than virtual forms. Furthermore, the research scope is limited to business organisations consisting of groups of people, so that the findings are likely to be less applicable to business organisations without employees, such as sole traders.

Finally, research on the effectiveness of anti-fraud measures may be restricted by the lack of practical evidence for the effectiveness of aspirational counter-fraud actions, since their implementation in practice could conflict with company budgets and the limited resources planned and allocated for mitigating fraud risk.

4 Research methods and methodology

4.1 Research strategy, techniques and activities

My overall research strategy was characterised by drawing on different sources of information and using distinct research techniques. In so doing, my goal was to correlate the acquired knowledge to findings and evidence obtained from and discussed in other scholarly sources. In detail, I have utilised the following activities in order to collect the necessary information.

1. Literature analysis

My research project included a critical study of other academic researchers' findings on organisational fraud, corporate crime, and prevention and detection of illegal and unethical behaviour. I analysed publicly available secondary data such as articles in scholarly journals, literature review articles, reference books, investigation reports, case studies and official government statistics and accounting companies specialising in forensic accounting and fraud investigation. Crime surveys undertaken by external auditing companies and anti-fraud bureaus were also reviewed and examined.

2. Professional observations

As one of the steps to collect information, I analysed the root-cause of illegality in **21 cases** of corporate crime and occupational fraud that I investigated in my capacity as a corporate auditor and fraud investigator. The nature of those cases under investigation was, for instance, management override of internal controls, financial statement fraud, money laundering and assistance in tax evasion, travel expenses fraud, alteration of data payments, corruption and bribery, and credit card disbursement fraud. The knowledge gained through the analysis of those cases has been embedded into my research considering data confidentiality.

My internationally acknowledged certifications of Certified Internal Auditor and Certified Fraud Examiner show my expertise and practical experience in auditing and fraud investigation, and allowed me to perform my analysis and observations from an independent view point away from the influence of corporate management.

3. Analysis and assessment of anti-fraud management

As part of my work as corporate auditor and fraud investigator, I regularly review and analyse extensive volumes of organisational documentation concerning fraud risk and its mitigation. As part of my audit engagements, I regularly perform assessments of internal control systems in place and whether the risks of corporate fraud were comprehensively identified by the company management and properly addressed by anti-fraud management. Since the beginning of my

career, I have analysed and evaluated the documents related to anti-fraud management in companies across different industries, e.g. financial services, legal services, manufacturing, retail, real estate, construction and non-profit organisations.

4. Empirical study research

Within my capacity as the risk management consultant, I was commissioned by my former employer (Steria Mummert Consulting) in 2009 to perform an empirical study on traditional anti-fraud activities and measures in the European banking sector. For this purpose, I surveyed 50 of the largest German banks that were regarded to be the trend-setters in counter-fraud management. The survey result was issued in the survey "Financial crime in financial institutions" in 2009 and the results were presented and discussed in an article "Effective management of fraud risks in financial institutions. Risk analysis as cornerstone for fraud prevention" which I regard as one of the artefacts within my PhD research.

5. Model induction

As part of my research, I developed and advanced a model of criminogenesis based on practical observations, documentary analysis and literature review undertaken for the purpose of exploring the phenomenon of corporate crime. This inducted model of criminogenesis emerged from the study itself and it is discussed in this context statement.

4.2 Choice of qualitative research methodology and critical reflection approach

After considering different research approaches, I decided to apply a qualitative approach as the study methodology. From the family of qualitative research methods, the approach of critical reflection in terms of my professional experience provides the most suitable and appropriate methodology for this PhD by Public Works, which is practical, real world research with its main emphasis on fieldwork and professional experiences.

At the core of the critical reflection approach lies reflective justification of my claims and position, that allow me to demonstrate how a combination of my professional experience, analysis of empirical data and the literature led me to advance my research. Furthermore, rigorous and innovative research remains a reflective business (Wren, 2004), which is ultimately enriched by the personal reflections of the researcher (Malaurent & Avison, 2017). Therefore, deploying critical reflection in the service of the research questions allows me to engage in examination and questioning of my own methods and place me in the position of critical observer of my own practice and that of my peers (Engward & Davis, 2015; Malaurent & Avison, 2017). It gives me good guidelines for richness, relevance, and self-reforming strategies (van Draanen, 2017). In this sense, the reflective method helps me to critically examine the assumptions underlying my own actions and the actions of my peers in the field of fraud prevention.

Exploring what the fraud triangle framework can or cannot tell us about the causation of fraud and why that might be, I question the broadly accepted course of actions adopted and promoted by ACFE to analyse fraud origin. In other words, it is my objective to critically reflect on what I have learnt from my field experience and to challenge the mainstream practice of application of the fraud triangle. To reform my own approach and the approach of the professional community in scrutinising fraud causation, I tap into the academic knowledge to make an impact on professional practice through contributing to professional knowledge and ultimately to further my professional development. I believe that critical reflection is the most suitable pathway for me as a professional to present the development of my work in a practice-based professional doctorate such as the PhD by Public Works.

Dealing with 'real life' issues in the field of fraud detection and prevention, critical reflection on my professional experience is an essential means for developing rigour in my qualitative research. By cultivating critical reflection, I will outline how and why my research and findings make a difference to practice and contribute to knowledge. My leitmotiv is therefore not only to improve how I practice my craft, but also to make other colleagues and peers into better fraud fighters, by translating knowledge from academia, providing new insight into fraud causation in the organisational context and, hopefully, engaging them in a reflexive process to question the assumptions and approaches that are taken for granted.

4.3 Iterative research process

In the course of this PhD, my research process was characterised by a recurring pattern of collection of empirical data from fraud cases, literature review, conceptualising and coding of findings, publication of articles, and formulation of new questions (Figure 3).

To be precise, my empirical data is represented through 21 cases of fraud in different industries I was involved in the investigation of these cases. Once I collected the first set of data in the course of a fraud investigation (Step 1), I reviewed the relevant literature to elaborate what was already known in the scholarly and professional world on fraud causation which could help in understanding of relevant criminogenesis (Step 2). Following on from this, I coded my observations (Step 3) and conceptualised my findings in the course of publishing my articles (Step 4). All these stages helped me to identify and comprehend the relevant criminogenic elements which trigger fraud in businesses, which I then pieced together in the final step of the process to build a model of criminogenesis aiming to explain the causation of fraud (Step 5).

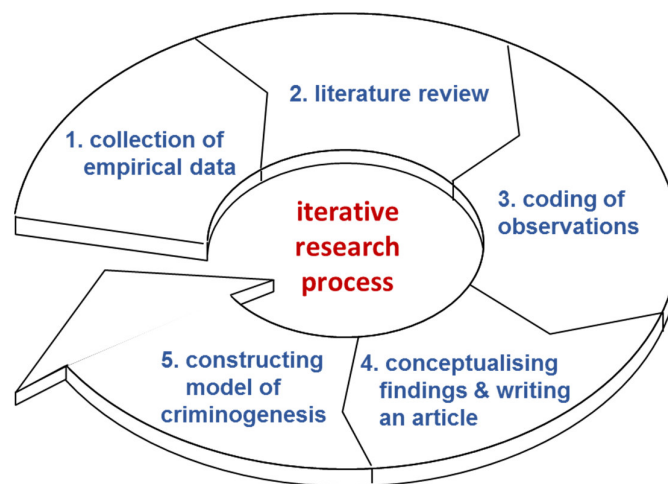


Figure 3. Iterative research process.

However, the sequence of steps which guided my research process were not as orderly and distinct as it may appear in the visualisation shown in Figure 3. I experienced rather a more fluid progression of the research phases. On occasion, I could not move to Steps 3, 4 or 5, even after collecting a sufficient amount of empirical data and reading a range of articles and looking into a number of underlying explanatory theories on crime causation. It was not always obvious at the first attempt how to interpret and connect an academic explanation to the fraud cases under investigation. To overcome this slowdown, I had to go back to the previous fraud cases, and by using a critical reflexive lens to

zoom into details and revise the collected data to review an underpinning theory, I was trying to embrace in my research in order to find the connection I previously missed.

This recurrent back-and-forth between analyses of the fraud cases and reading the literature helped me enormously when developing my knowledge and find the linkage between science and practice. Therefore, I would not describe the research process as an upward or linear process, from investigating the case in Step 1 to identifying a missing jigsaw part of my model of criminogenesis in Step 5, but rather 'a stop-and-go' movement with regular interruptions between the phases, guided by repeatedly performed comparisons across the cases of corporate crime in connection with the explanatory theoretical framework from the literature. This was a distinctive approach for this study, and it allowed me to develop an understanding of alternative options, deepen my theoretical and practical knowledge, and to let the theoretical framework, in the form of the model of criminogenesis, to emerge from the analysis of empirical data and the literature. In this way, I was able to identify several patterns in the occurrence of corporate crime and develop explanations for what was observed, based on the data which was collected during the research process.

However, the first two steps – namely, empirical data collected from the field and reading the literature – remained the key elements during the entire research period in the development of my iterative reflection process. Within this process, the literature review brought me new perspectives, and enhance my understanding of the origins of fraud. Once I understood an academic theory explaining crime causation, I tried to integrate the newly acquired knowledge in practice, by applying my learnings from the academic world for root-cause analysis of the subsequent fraud cases.

The benefit of performing research in real-world organisations was that there was a strong correlation between my PhD and my daily activities and responsibilities. I could regard my working environment and organisation as a research lab, where I collected the empirical data, and tested my freshly acquired scientific knowledge.

The other benefit was a focus on solving a practical problem arising from the application of the fraud triangle model. I was addressing an issue framed in the professional world, and resolving it would provide real value not only to me, or my organisation, but also to other practitioners in the field of fraud prevention and detection.

4.3.1 Collection of empirical data and overview of fraud cases

As outlined before, I collected my empirical data through 21 cases of fraud where I was engaged in investigations in different roles: I was variously the lead investigator of a forensic team, an individual investigator, or a member of the investigative team consisting of experts from different fields (e.g. law, accounting, IT). Below is a summary of the empirical data collected:

- 21 fraud cases forming the body of my empirical data, which occurred between 2005 and 2018, and the damage caused by the 'smallest' fraud case was approximately 150 TEUR.
- The shortest investigation period lasted three months and the longest 12 months, depending on the case complexity, number of interviews, the data availability, and the course of subsequent actions, e.g. whether a fraud case should be taken to the court to proceed against the offender.
- The cases investigated occurred in different industries, such as banking (six cases), insurance (four cases), electrical engineering (one case), leasing & factoring services (one case), manufacturing (four cases), retail (four cases), and transportation (one case).
- The companies were located in following countries: Germany (10 cases), Russia (two cases), Austria (three cases), the UK (one case), Mexico (two cases), Latvia (two cases), and Italy (one case). However, the location of the companies does not necessarily correspond to the nationality of the offenders.
- Four cases were committed by individual offenders and 17 cases were committed collectively by groups of offenders (co-offending).

The summary of fraud cases representing my fieldwork data collection and providing the empirical foundation of my research is shown in Table 2. The overview of fraud cases is put together in an anonymised form that only displays the key information that serves to understand the *modus operandi* and the essence of the fraud causes under investigation. The summary does not contain any identifiable details, which could lead to a potential breach of confidentiality or data protection law.

The findings and result of each investigations were contained in an internal investigation report, which was usually submitted to a supervisory board of the company as the sponsor of the investigation, and, if required, to a court or an insurance agency covering directors' liability.

In my investigative role, I was not responsible for making any decisions on what would happen with culprits (e.g. dismissal, issue of warning notice) and whether the legal cases would be pursued against the offenders. My remit was to collect evidence and provide a factual account of what happened, who was involved, what fraud scheme was used, what the (potential) damage to the company was, and

make recommendations to prevent similar irregularities in the future. Based on my field experience, I assertively claim that a large number of corporate fraud are not known to the broader public, since the companies do their utmost to prevent any dissemination of internal information, which potentially could put the company in a negative light or besmirch their image.

While gathering of empirical information, I endeavoured to evaluate, interpret, and reflect on collected data and experiential knowledge, and consider underlying explanatory theories for fraud causes. As outlined before, the application of theoretical knowledge on fraud aetiology in practice was however not always an unproblematic undertaking for me. Sometimes, it worked well, sometimes it did not. The difficulties were accounted for mostly by:

- the complexity of fraud cases;
- problems in collecting evidence (e.g. evidence was deliberately destroyed);
- a lack of opportunity to interview the potential culprit(s), e.g. due to their immediate departure from the company upon fraud discovery;
- occasionally, a high number of individuals involved in events (co-offending);
- personal and professional relations between individuals under investigation; and
- political and 'messy' environments dominating the companies (Schön 1987).

The uncertain, unpredictable and chaotic nature of 'real life' in the businesses falls often in a blind spot of scientific theories which makes it complicated to apply them to the real working environment.

My experiences taught me that operations, processes and relations in business organisations are complex, influenced by internal culture, and very often driven informally by personalities and less by formal work policies and instructions. This made it difficult for me to gain full transparency and obtain relevant information. Put simply, in my capacity as investigator I frequently was in a situation where I was unable to collect all the relevant facts, acquire the whole picture and background knowledge of how fraud initially started, what the motives of offenders were, and whether they had perceived any pressure or had any incentives to engage in fraudulent activities. Additionally, I was also often not able to answer the question of whether or how the offenders were able to rationalise their conduct.

Table 2: Overview of fraud cases

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|--|----------|--------------------|---|--|---|---|---------------------------------|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| 1 | Money laundering | Banking | Germany | A bank opened bank accounts for a certain group of clients in offshore countries, which were on the Financial Action Task Force list of 'Non-Cooperative Countries or Territories' (NCCTs). The bank created bank accounts in order to deliberately avoid regulatory scrutiny and help the clients to disguise the source of their money. | Breach of Anti-Money-Laundering (AML) regulations. | No. Crime opportunity was collectively created by management as part of business model. | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Macro-level (poor enforcement of legal regulations to prevent international money laundering schemes, political and legislative conditions supporting business interests, symbiotic relationship between the state and the bank, criminogenic banking industry) Meso-level (unethical culture and atmosphere, criminogenic working environment) |
| 2 | Money laundering | Banking | Russia and Germany | A subsidiary of a German bank in Russia helped to 'launder' funds from Russian companies and wealthy individuals by accepting funds of a doubtful origin and transferring money across the border to bank accounts in Germany to disguise and legitimise the source of the funds. | The Wealth Management division of the subsidiary in Russia generated an unusually high profit. | No. Crime opportunity was collectively created by management as part of business model. | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Macro-level (poor enforcement of legal regulations to prevent international money laundering schemes, political and legislative conditions supporting business interests, symbiotic relationship between the state and the bank, criminogenic working environment) Meso-level (criminogenic banking industry, unethical culture and atmosphere) |
| 3 | Management override of internal controls and | Banking | Austria | A manager in the Real Estate Department secretly purchased a property through an intermediary which was rented by the bank the manager worked for, so that the bank unknowingly paid an overstated rent to the manager as ultimate owner. Over the years of | The bank paid high rental payments for the rented building. | Partially. In the exit interview, the offender said he was motivated by an additional source of | Management override of internal controls is not addressed | Individual offender | Micro-level (the personal characteristics of the culprits, individual's frail morality, potentially greed) |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|--------------------------------|----------|---------|---|---|--|---|--|---|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | misuse of managerial position | | | tenancy, the manager had not disclosed his ownership of the property, but constantly increased the monthly rental payments, that were above the average market price. | | income (incentives/pressure) . However, the manager had <i>per se</i> an opportunity to commit fraud due to his executive position) | | | |
| 4 | Credit card disbursement fraud | Banking | Austria | A Sales Director used a company credit card for personal purchases, so that personal expenses were paid by the employer. The Sales Director's assistant was in charge of checking and releasing the payments. | Inappropriate approval process: the expenses of the manager was checked and released by a subordinate employee. | Partially. Partial application of FT model for the Sales Director but not for the subordinate person who co-offended. The Sales Director had an extravagant life style involving high amount of money (incentives/pressure) and he had a strong sense of entitlement to put his personal expenses through the company credit card. However, the subordinate participated in the fraud scheme but did not have any (directly observable) benefits. | Co-offending is not addressed by the FT. The assistant might have had incentives to co-offend but the pressure was neither financial nor non-shareable (i.e. non-disclosable) for her to knowingly release the fraudulent credit cards payments. | Individual offending but with elements of co-offending | Micro-level (the personal characteristics of the culprits, private relationship between the superior and the subordinate, unquestioning loyalty to the leader by the subordinate, moral disengagement, weak-self-regulation capabilities, lack of critical thinking on the side of the assistance) |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|--|-----------|---------|---|--|---|---|--|---|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| 5 | Misappropriation of funds (donation fraud) | Banking | Germany | <p>As part of a scholarship program, a bank granted donations to children, who need financial support for their education.</p> <p>Against the purpose of the scholarship program, the private schooling of the children of the bank managers was also financed with the donated funds, even though those children didn't require any financial support due to the high income of their parents. The manager responsible for supervision of the donations jointly decided with other bank managers on how the funds should be spend.</p> | Exceeding the budget of donation funds. | <p>No</p> <p>The opportunity was created collectively by a number of managers.</p> <p>Rationalisation and pressure were not possible to diagnose as the managers in questions left the company upon the discovery of irregularities.</p> | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Micro-level (the personal characteristics of the culprits, individual's frail morality, potentially greed) |
| 6 | Asset Management related Fraud / Real estate Fraud | Banking | Germany | An Asset Manager illegitimately adjusted the appraisal of a property owned by the bank to sell it under value to one of his family members. | A low book value of the real estate property in the bank's books. | <p>No.</p> <p>The manager had <i>per se</i> an opportunity to commit fraud due to his executive position)</p> <p>The subordinate helped to adjust the property appraisal: they did not have any direct benefit.</p> | Management override of internal controls is not addressed by the FT. | Collective fraud/Co-offending | Micro-level (the personal characteristics of the fraudsters, moral disengagement, weak-self-regulation capabilities, unquestioning loyalty to the leader by the subordinate, poor followership and lack of critical thinking on the side of the assistance) |
| 7 | Travel expenses fraud/expense reimbursement fraud | Insurance | Germany | Management team of a sales department (the Sales Manager for Europe, the Sales Manager for Asia, and the Sales Manager for America) regularly declared their private holiday trips as business related travel and claimed travel expenses for the private holidays as if they were business trips. The person from Finance who approved the reimbursement of the | No documented agenda for the trips in question and no evidence for work-related activities on those trips. | <p>No.</p> <p>The manager had <i>per se</i> an opportunity to commit fraud due to his executive position)</p> <p>The subordinate were aware of the fraud</p> | Management override of internal controls is not addressed by the FT. | Individual offending but with elements of co-offending | <p>Micro-level (the personal characteristics of the culprits, moral disengagement, lack of critical thinking of subordinates, unquestioning loyalty to the leader by the subordinate)</p> <p>Meso-level (unethical culture, diffusion of responsibility, criminogenic groupthink)</p> |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|---|-----------|---------|---|--|---|--|---------------------------------|---|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | | | | expenses did not challenge the expenses claims from Management. | | scheme but did not have any direct benefit. | | | |
| 8 | Management override of internal controls and conflict of interest | Insurance | UK | The CEO of an insurance firm and his spouse jointly set up an outsourcing company to handle insurance claims for the insurance firm. This outsourcing company was managed by the spouse of the CEO. The staff in the Claims Department of the insurance firm was advised by the CEO to process all insurance claims through the company managed by his spouse. In this way, the outsourcing company generated their profit. | The CEO had a strong preference to work with a particular outsourcing company. The CEO had an undisclosed personal economic interest in a business relation with the outsourcing company. | No. The CEO had <i>per se</i> an opportunity to commit fraud due to his executive position) The fraud scheme was known to many employees at the insurance company including Senior Management. | Management override of internal controls is not addressed. | Collective fraud/Co-offending | Micro-level (the 'ruthless' and dominant CEO with narcissistic traits, who managed people by obedience) Meso-level (organisational culture, a high number of passive bystanders who were aware about this scheme; culture of anxiety, the management conduct was not questioned) |
| 9 | Falsification of invoices and document regarding commission payment | Insurance | Germany | Two senior managers of the insurance company secretly agreed to the misrepresentation of commission fees payed to an agency to avoid a regulatory scrutiny due to a sales inducement issue. They disguised commission fees by creating fraudulent invoices for services, which were never received by the insurance company. | Policies with unusually high commission rates were sold successfully through an intermediary sales agent. | No. The managers had <i>per se</i> an opportunity to commit fraud due to his executive position. The subordinate participated in the fraud scheme but did not have any direct benefit. | Management override of internal controls is not addressed. | Collective fraud/Co-offending | Meso-level (unethical working atmosphere, herding effect, criminogenic groupthink, exclusion of cultural resisters) Micro-level (displacement of responsibilities, lack of critical thinking of the staff, poor leadership style) |
| 10 | Financial statement fraud/ Intentional | Insurance | Austria | Insurance premiums collected were overstated to deliberately enhance the revenue and economic stability of the insurance company. | Over-performance of a manager, a high amount of premium collection | No. The Management had <i>per se</i> an opportunity to | Management override of internal controls is not addressed. | Collective fraud/Co-offending | Meso-level (unethical working atmosphere, unethical leadership style) |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|---|------------------------------|---------|--|---|--|---|--|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | misapplication of accounting principles | | | The Finance team was instructed by a member of management to inflate premium collection. The manager in question had directly benefited from revenue misrepresentation by receiving a performance bonus. | even in an economic slowdown, and outstanding financial performance of the insurance company. | commit fraud due to his executive position. The subordinate participated in the fraud scheme but did not have any direct benefit. | | | Micro-level (Dark-triad traits associated with the manager personality, management by obedience, lack of critical thinking for the staff, displacement of responsibilities) |
| 11 | Corruption and bribery | Electrical engineering | Germany | A net of shell firms were created and numerous bank accounts were opened in offshore territories to pay bribes to government officials and civil servants abroad to gain new projects and increase market shares of the company. Paying a bribe was the accepted practice at numerous company divisions and the system of bribery was widespread and integrated in the business model. | Complex accounting rules, using a high number of bank accounts in offshore territories. | No. The opportunity was collectively created by management as part of the business model. | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Micro-level (Dark-triad traits associated with the manager personality, lack of critical thinking for the staff) Meso-level (unethical corporate culture, culture of bribery was the accepted business norm, paying a bribe was customary in several business units, a high number of passive bystanders who were aware about this scheme) Macro-level (poor enforcement of legal requirements regarding bribe payments and corruption in business, political and legislative conditions supporting business interests) |
| 12 | Corruption and bribery | Leasing & factoring services | Mexico | A Procurement Manager accepted gifts of a high value from a supplier in the course of the supplier selection process. As a result, the supplier could influence the outcome of the tendering process and signed off a business agreement with the company. | Negotiation with a specific supplier was carried out only by the Procurement Manager. | Partially. The fraudster had an opportunity to commit the fraud due to a lack of controls (opportunity). | The fact that opportunity can be created collectively in cooperation with external parties is | Collective fraud/Co-offending (collusion) | Micro-level (the personal characteristics of the culprits, individual's frail morality, greed) |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|---------------------------|---------------|---------|--|---|--|--|---------------------------------|---|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | | | | | The Procurement Manager had discretion in awarding business to vendors. | <p>However, the manager had per se an opportunity to commit fraud due to his executive position.</p> <p>In the exit interview, the offender claimed he committed crime because he felt he was being underpaid (rationalisation)</p> <p>'Pressure' was not observable.</p> | not addressed. (collusion) | | |
| 13 | Financial statement fraud | Manufacturing | Germany | The Plant Manager instructed the Finance team to make manual adjustments in the IT System for Production area to fraudulently reduce production costs in order to 'improve' the profit of the company. | There was no documentation available to justify the manual amendments of production costs in the IT system. | <p>No. The opportunity was created collectively.</p> <p>The manager had <i>per se</i> an opportunity to commit fraud due to his executive position)</p> <p>The subordinates were aware of the fraud scheme but did not have any direct benefit.</p> | <p>The fact that opportunity can be created collectively is not addressed.</p> <p>Management override of internal controls is not addressed by the FT.</p> | Collective fraud/Co-offending | <p>Meso-level (unethical working atmosphere, unethical leadership style)</p> <p>Micro-level (Dark-triad traits associated with the manager personality, management by obedience, lack of critical thinking for the staff, displacement of responsibilities)</p> |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|--|-------------------|---------|--|---|--|---|---------------------------------|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| 14 | Misappropriation of company's assets by diverting the payments in the internal Electronic Payment System | Manufacturing | Mexico | An employee of the Accounting Department had manipulated the internal Electronic Payment System and fraudulently diverted the funds of the company to the bank account of a family member. | An employee of the Accounting Department had excessive user rights in the Electronic Payment System. | Partially. The culprit was an individual offender and had the technical opportunity and knowledge to commit the fraud (opportunity). In the exit interview, the culprit claimed they needed money for hospital, which however could not be reconfirmed (incentives/pressure). | Rationalisation was not observable/identifiable. | Individual offender | Micro-level (the personal characteristics of the culprits, the individual's frail morality, potentially greed) |
| 15 | Asset Misappropriation | Manufacturing | Germany | An employee in the production department ordered excessive raw materials and had them delivered to a business that was run by one of his family member. The production employee falsified receiving documents and approved the invoices for payment to pay the delivery of raw materials. | There was a large mismatch/difference between materials purchased, the inventory level and the material usage for production. | Partially. The fraudster had an opportunity to commit the fraud due to a lack of controls and poor segregation of duties (opportunity). Rationalisation and pressure were not possible to identify due to dismissal of the offender upon discovery of the fraud | Rationalisation and pressure were not observable. | Individual offender | Micro-level (the personal characteristics of the culprits, the individual's frail morality, potentially greed) |
| 16 | Corruption and bribery | Car manufacturing | Germany | In 1999, bribes abroad paid by German companies have been banned by law in Germany. However, the company (a car | The 'third-party accounts' were | No. | The fact that opportunity can be | Collective fraud/Co-offending | Macro-level (poor legal framework, loopholes in the legal systems, the flaw in the German legal system allowing bribes paid |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|---|----------|---------|---|--|--|---|---------------------------------|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | | | | manufacturer) continued to engage in bribery and paid bribes through internal 'third-party accounts'. The payments were concealed as 'useful payments' - known in Germany as 'Nützliche Aufwendungen' to pay bribes abroad in order to boost car sales. | subject to minimal oversight. | The opportunity was collectively created by management as part of the business model. | created collectively is not addressed. | | abroad to be accounted for as tax-deductible expenses until 1999, which facilitated and shaped the culture of bribery, political and legislative conditions supporting business interests) Meso-level (unethical corporate culture, culture of bribery was the accepted business norm and paying a bribe was customary throughout the business) Micro-level (Dark-triad traits associated with the manager personality, lack of critical thinking for the staff) |
| 17 | Fraudulent Financial Reporting and deceptive accounting practices | Retail | Latvia | A Finance Director instructed employees in the accounting department fraudulently to conceal large losses of the company in dormant cost accounts. | The lack of transparency in cost accounts structure, destruction of financial documents. | No. The opportunity was created collectively. The manager had <i>per se</i> an opportunity to commit fraud due to his executive position. The subordinates were aware of the fraud scheme but did not have any direct benefit. | The fact that opportunity can be created collectively is not addressed. Management override of internal controls is not addressed by the FT. | Collective fraud/Co-offending | Meso-level (unethical working atmosphere, unethical leadership style) Micro-level (Dark-triad traits associated with the manager personality, management by obedience, groupthink, social pressure to confirm lack of critical thinking for the staff, displacement of responsibilities) |
| 18 | Tax evasion | Retail | Latvia | As part of its corporate tax strategy, the Headquarters of an international company deliberately overcharged their international subsidiaries for products and services to reduce | There was no documentation to support the transfer costing | No. Opportunity was created collectively. Rationalisation and | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Macro-level (poor legal framework to pursue tax evasion/avoidance, criminogenic isomorphism to resemble the behaviour of other key players, social acceptance of illegal |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|--|----------|---------|--|---|--|--|--------------------------------------|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| | | | | <p>the tax due payments in the countries with a high tax rate, where the subsidiaries were located</p> <p>As such, inter-company transactions between the Headquarters and their entities did not correspond with the arm's length principle and the profit of the company was fraudulently concealed.</p> | <p>and to justify the fairness of the inter-company transactions.</p> <p>The Headquarters treated their legal entities transfer pricing-wise unequally.</p> | <p>pressure were not possible to analyse.</p> | | | <p>practice, political and legislative conditions supporting business interests)</p> <p>Meso – level (poor organisational culture and poor leadership)</p> |
| 19 | Fraudulent Financial Reporting | Retail | Germany | <p>The Finance staff was advised by the Management of the company to improperly value the goods inventory by overstating the value and the number of goods in the warehouse to demonstrate the economic stability of the company.</p> | <p>The real capacity of the warehouse was not enough to accommodate the number of goods recorded.</p> | <p>No.</p> <p>Opportunity was created collectively.</p> <p>Rationalisation and pressure were not possible to analyse.</p> | <p>The fact that opportunity can be created collectively is not addressed.</p> | <p>Collective fraud/Co-offending</p> | <p>Micro-level (Dark-triad traits associated with the manager personality, lack of critical thinking for the staff)</p> <p>Meso-level (unethical working atmosphere, management by obedience, poor leadership style, displacement of responsibilities, groupthink)</p> |
| 20 | Travel expenses fraud/ Expense reimbursement fraud | Retail | Italy | <p>An employee submitted a falsified fraudulent expense report for fictitious expenses, claiming reimbursement for personal (non-business related) travel and non-existing meals.</p> | <p>The travel claims were made over the weekend and the employee stayed in an expensive/ luxury hotel.</p> | <p>Partially.</p> <p>The fraudster had an opportunity commit the fraud due to a lack of controls (opportunity)</p> <p>Rationalisation and pressure were not possible to identify as the employee left the company.</p> | <p>Rationalisation and pressure were not observable.</p> | <p>Individual offender</p> | <p>Micro-level (the personal characteristics of the culprits, the individual's frail morality)</p> |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|---------------------------------|----------------|---------|---|---|--|---|---------------------------------|--|
| No | Title of case | Industry | Country | Modus operandi | Fraud 'red flags' | Full application of the FT to analyse the cause? | Limitations of the FT | Individual or collective fraud? | Coding result and main criminogenesis identified |
| 21 | Good thefts and insurance fraud | Transportation | Latvia | <p>Truck robberies and goods thefts were simulated by a network of employees of the company. The cost for the goods stolen were submitted to insurance to recover losses. The stolen goods were then sold privately by employees.</p> <p>Fraudulent collusion was identified between several employees (truck drivers, employees of the Payable Department) to submit a fraudulent insurance claim.</p> | High frequency of truck robberies and goods thefts. | <p>No. Opportunity was created collectively.</p> <p>Rationalisation and pressure were not possible to analyse since there was no possibility to interview the culprits.</p> | The fact that opportunity can be created collectively is not addressed. | Collective fraud/Co-offending | Micro-level (the personal characteristics of the culprits, individuals' frail morality) |

4.3.2 Performing the literature review

As outlined above, the literature review was an important part of the iterative research process of analysing the root-causes of the 21 fraud cases in relation to other scientific perspectives and fraud-related theories. This review of academic literature gave me an opportunity to understand, enhance and modify my practice in action. Cumulatively, my approach to the analysis of empirical data and literature review allowed me to compare my previous beliefs and practices about fraud causation and prevention with present academic discussions and identify possible similarities and differences in the observations made. In the course of the literature review, I was able to identify a range of relevant criminogenic factors and build an integrative model, demonstrating how individual, organisational and environmental factors affect the formation and generation of criminal behaviour in the business world.

To provide evidence of rigor while conducting the review, I describe in this section the process I used to perform the literature review and provide information on the databases and journals I searched to identify the literature that should be considered for review.

My first intention was to create an archive from which I could build an overall view of the literature. To this end, I started searching several top-rated databases, initially without any journal specifications. Those selected databases were Google Scholar, EBSCO, Proquest, Business Source Complete, ABI/INFORM Complete, Academic Search, JSTOR, Emerald, and ScienceDirect. Since the aim of the review was to identify relevant literature in relation to corporate crime and criminogenesis in the organisational context, the following search terms were used initially: organisational crime, organisational fraud, criminogenesis in businesses, corporate crime, corporate fraud, employee crime, occupational fraud, employee fraud, criminal businesses, criminogenic corporate culture, illegal and unethical behaviour, corporate misconduct.

The search provided access to thousands of academic, professional and 'hybrid'-articles. The search was then narrowed down to peer-reviewed articles published in English. Once I identified an especially useful article that was cited extensively in the literature, I also searched articles that have referenced that article (Web of Science allows this type of search). This helped me to ensure that I was reviewing the latest academic discussion on an important article selected for my literature review.

Locating peer-reviewed sources was important for enhancing the credibility of the findings. However, I also analysed newspaper and magazine articles reporting on corporate fraud cases to broaden the sources in my database. From the review, I excluded any unpublished dissertations, conference proceedings papers, and other forms of non-peer-reviewed articles.

The second stage of the search process involved analysing article titles and abstracts to obtain more relevant articles. As article titles and abstracts were perused, relevant themes relating to criminogenesis in the business context were discerned.

Following on from this analysis, I extended the literature search by considering the further key words in my search. These included: criminalisation process, criminogenic isomorphism, groupthink, herd behaviour, conformance and compliance in businesses, crimes of obedience, and crime of the powerful, displacement of moral responsibility, moral disengagement, rationalisation, cost-benefit thinking, collective crime, unethical leadership, ethical behaviour, anti-fraud management, and anti-fraud strategy.

A further search was conducted using these themes to obtain further articles discussing the determinants of criminal behaviour in the organisational context.

In the final stage of the search process, the evaluation went beyond article titles and abstracts to include content and reference lists. The focus here was locating articles discussing the antecedents of criminal behaviour in business organisations at the individual, organisational and environmental levels. Through this process, publications listed in the bibliography were identified and considered as relevant for the review.

The majority of the articles were published in the following journals: the Journal of Business Ethics, Research in Organisational Behaviour, The Leadership Quarterly, Journal of Leadership & Organisational Studies, Contemporary Accounting Research, Journal of Leadership & Organisational Studies, Journal of Management Education, Leadership, Journal of Management Inquiry, Society and Business Review, Psychological Science, Crime, Law & Social Change.

4.3.3 Coding process

For coding purposes, I used three phases to examine, organise, refine, and cluster data with the relation of fraud causation in specific cases. The three phases of the coding process are shown in Figure 4. Considering the relevant literature, publicly known cases of corporate fraud and cases that I investigated, I decontextualised information from the original context by breaking down the information into small units indicating a specific source of corporate fraud. I then looked for any patterns among those units, with the goal of interpreting them while considering the context in which the pattern emerged. Finally, I assigned codes to the units to contextualise the data under review.

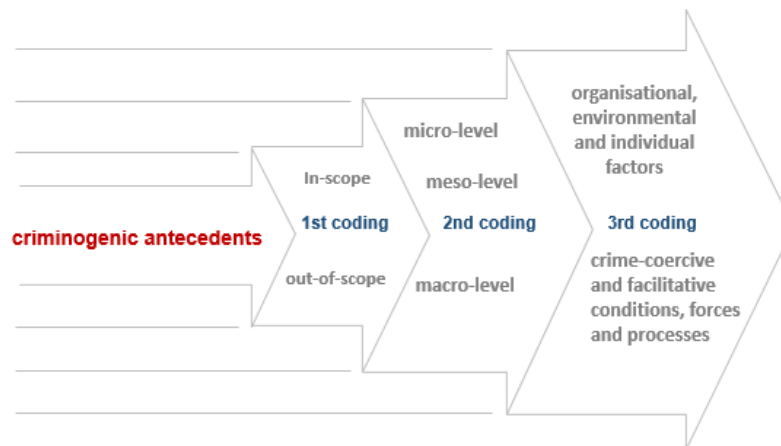


Figure 4. Three phases of coding process.

Within the first coding phase, I decided on whether the criminogenic antecedents are within the scope of the research or not. Examples of antecedents I decided to exclude from the scope are individual culture, ethnic background, social background, age and educational attainment of offenders. Furthermore, I ignored organisation-related factors such as the size and turnover of the company and the maturity of the business (e.g. start-up, or mature company). For the macro-level, I did not consider the political system (e.g. authoritarian governments, monarchy, or democracy).

At the second coding stage, I set three core categories in order to group the criminogenic antecedents into one of three levels, representing the domains of the origin of corporate crime. In detail, it means the following:

1. Macro-level represents the business environment such as the specific industry and market in which the company operates (Bethune, 2015, p. 139).
2. Meso-level deals with organisations as social constructs and refers to a business organisation that connects the macro- and micro-levels as an intermediary layer (Vaughan, 2007).

3. Micro-level refers to a human agent and agency that is connected to individual attitudes, values and behaviour (Heath, 2008).

In the third stage of coding, I divided the criminogenesis into two sections according to its nature and effect on the organisational members in the way how it influenced the corporate system members. This means that the group of criminogenesis represents the nature of antecedents with reference to individual, organisational or environmental factors.

The result of my coding process for the 21 cases is displayed in Table 2, column 10 "Coding result and main criminogenesis identified". Within the coding process, almost half of the cases indicated that more than one single criminogenic domain was identified as being responsible for fraudulent behaviour (e.g. cases 1, 2, 7, 8). It was difficult for me to specify one single domain of criminogenesis (micro, meso, or macro) as being a main trigger for delinquency, since the three domains clearly intertwine in practice.

In the application of this coding procedure, I could explore the range of criminogenesis at different levels responsible for fraud and identify the key conditions, forces and processes that either compel or facilitate the agents to engage in illegal and unethical activities. In some cases it was difficult to precisely distinguish the nature of the criminogenic influence (facilitative vs coercive) since criminogenesis can operate and effect either in a single manner or simultaneously in several ways, meaning that coercive and facilitative forces might operate at the same time.

4.3.4 Conceptualising preliminary findings and summary of articles published

I endeavoured to conceptualise my findings arising from the analysis of the empirical data and literature review, through publishing articles, building 'artefacts' for my PhD and providing the foundation for building a model of criminogenesis.

Conceptualising my findings by addressing a variety of questions as part of research led me from the publication of one article to the next, while my conceptual framework of criminogenesis was successively refined and developed. Throughout this time, I could build a path of 'stepping stones' by creating artefacts for my model. Each new round of empirical data collection and the literature review helped me to build a new block of knowledge and further refine the theoretical model of criminogenesis.

Since 2005, I have published five articles in German (four of them with joint authorship) and five in English in peer-reviewed journals in relation to criminogenesis in the organisational context, and the anti-fraud measures required to deal with it. In the course of my research, the published articles have served as the linking elements of my critical analysis and have provided a consistent thread throughout my research. Below is a summary of key findings arising from my publications, mapping my effort towards the PhD by Public Works. The further details of all these publications can be found in Annex I.

My first manuscript published in 2005, on economic crime and money laundering techniques, explores the criminogenic environment of the financial market and the possibilities for laundering illicit funds through financial derivatives in the security market. The publication also examined to what extent those possibilities are assessed and monitored by the German Federal Financial Supervisory Authority (BaFin) and financial institutions. Illegal money is no longer laundered primarily through cash transactions due to the fact that they are easily spotted and detected. Complex financial constructions such as derivatives appear to be more hospitable breeding grounds for money laundering activities. A low number of money laundering detections in the securities markets indicates that present control systems are incapable of dealing with the high level of sophistication of this laundering method. The securities market remains vulnerable to money laundering, fraudulent trading and market manipulation for a number of reasons. Some of those reasons are the liquidity of the markets, profit potential, ability to transfer funds globally, and the lack of historical oversight of derivatives trading for the purpose of potential money laundering. The findings of my research show that there are a number of criminogenic factors that make the securities market attractive to money laundering. For instance, the complex nature of the derivative products, lack of transparency and supervision of the securities market, the ease, speed and international nature of transaction execution, and a high level

of anonymity. The aforementioned factors are particularly relevant to the derivatives trading in over-the-counter (OTC) where the majority of privately negotiated contracts and trades are performed.

Even though potential money laundering with derivatives is prominent to the regulator (BaFin) and to financial institutions, there is a lack of rigorous control and monitoring of transactions in the securities market. My publication identifies gaps in the regulatory framework for derivatives trading and suggests ways in which they could be addressed. The publication opened up a new field of research in risk management of money laundering in the securities market and control of criminogenic factors in the financial market. Since the legislation and regulatory framework constantly evolves in terms of required actions to effectively combat money laundering, my recommendations were submitted in 2005 to the German regulatory authority for review and to allow it to adjust its regulatory framework in order to close potential legal loopholes.

As a result of the research carried out in 2005, I proposed in the publication that banks are not necessarily keen to introduce strict anti-fraud measures and rigorously monitor all suspicious business transactions, since such approach might have a damaging effect on a company's bottom line. Effective detection and prevention mechanisms in place would surely sabotage small-scale criminals and tax optimisers whose capital emanates from a 'grey area'. There is a case for assuming that the banks' intention is merely to fulfil the minimum legal requirements regarding implementation of anti-laundering systems, with a goal to continue pursuing business objectives. The concern of businesses is to become a part of prosecution bodies and the criminal prosecution process. This notion prompted me to research further into the questions of whether the financial market harbours crime-facilitating and crime-coercive features which aid the criminal conduct of financial institutions.

Following on from the above, my **second** article which was published in 2009 in joint authorship dealt with the criminogenic environment of financial derivatives trading that can be misused for money laundering, in order to disguise or misrepresent the illicit source and create a legal origin for questionable funds and money. Based on the analysis of a fraud case at the French Bank Société Générale which occurred in 2009, my paper analyses and points out systematic weaknesses of internal controls at the bank when it participated in derivatives trading. The article also discusses the relevant money laundering case studies published by the Financial Action Task Force (FATF) in 1998-1999 and reflects on key questions for financial institutions in terms of relevant warning indicators (aka "red flags") for early identification of potential money laundering techniques in derivatives trading. In this context, the article offers an insight into the complexity of managing of money laundering risk in derivatives trading and provides a strategy for a development of warning indicators for identification of suspicious transactions. The fact is that financial derivatives products are *per se* very complex, so is

derivatives trading itself. Therefore, there are very few publicly known cases where derivative financial instruments are involved in potential money laundering. Having said that, the development of valid indicators to identify suspicious transactions at an early stage is not an impossible task for a bank that strives to maintain a high standard of risk management and internal control system.

In 2009, I actively participated in the empirical research project 'Financial Crime in Financial Institutions' performed by the Germany-based advisory company Steria Mummert Consulting AG. The study had an objective to explore the range of traditional anti-fraud measures utilised by banks to prevent and detect financial crime including money laundering. Furthermore, the goal of the study was to identify a benchmark for anti-fraud strategies in the practical world. At that time, I worked at Steria Mummert Consulting AG as Senior Consultant for Compliance and Risk Management and was tasked with conducting an empirical study by devising questionnaires and sending them to the top 50 German banks. Following on from this, I analysed the results of the questionnaires provided by the banks in the scope of research, performed follow-up interviews with employees responsible for actions addressing financial crime, and finally summarised the findings of the research for a publication. The result of the research was discussed in my **third** article, jointly authored in 2009. The article discusses the outcome of the survey that highlighted a very heterogeneous picture at that time as to how banks respond to the regulatory requirements regarding the implementation of an effective anti-fraud management system. My article presents an empirically supported insight of how the German financial sector addresses not only financial crime but also internal fraud. In this way, my publication contributes to a benchmark analysis as to how financial institutions echo in practice the regulatory requirements for devising and utilising an effective anti-fraud system. Even though the majority of financial institutions that participated in the survey have had mechanisms and systems *in situ* for preventing and detecting fraudulent activities, the result of the survey showed that financial crime appears to be underestimated by the banks. This most distinctive finding indicates that financial organisations wool themselves in an illusory sense of security by assuming that they are sufficiently protected from fraud incidents and ignoring the fact that their anti-fraud actions do not fully mitigate the inherent criminogenesis of their organisations. The article discusses the notion that banks create a crime-facilitating environment, possibly without being fully aware of it. A further key finding from the survey was that a comprehensive fraud risk assessment was commonly regarded by the banks as a linchpin for effective anti-fraud management and was viewed as a solid foundation for developing pre-emptive measure to analyse and effectively reduce the risk of internal fraud and financial crime.

Following on from these findings revealed by the empirical survey, my **fourth** article (also published in joint authorship) discusses the possible strategies and tools for coping with the challenges faced by

German banks in performing a comprehensive fraud risk analysis within businesses. The paper presents reflections on some innovative approaches, tested in practice, to devise a conceptual framework for fraud risk analysis and to perform a comprehensive evaluation of criminogenesis in companies. In this way, the fraud risk assessment allows the businesses not only to identify high-risk products, transactions, customers and internal processes but also the range of criminogenesis regarded as the causation of illegal and unethical behaviour of business organisations and their members. The article introduces a methodological approach for carrying out a risk assessment which requires the special attention of fraud prevention practitioners working in compliance, risk management and internal audit departments that primarily deal with fraud risk identification and mitigation. The publication suggests a practical approach to planning and performing a fraud risk analysis and implementing risk-oriented measures that focus on high-risk areas previously identified in the course of the fraud risk evaluation.

The **fifth** paper published in a shared authorship based on the research performed in Germany goes beyond identification of criminogenesis and the assessment of fraud risk. The article introduces the process for development of the Integrative Compliance Management that holistically deals with mitigation of money laundering, fraud and risk of financial sanctions in companies operating in the German leasing and factoring markets. This paper reflects on the value of Integrative Compliance Management as an effective and efficient approach to mitigate a broad range of risk arising from money laundering, fraud and terror financing in leasing and factoring businesses in Germany. Companies employing Integrative Compliance Management are in a better position to enhance the effectiveness and efficiency of management of money laundering and fraud risks by pooling together prevention and detection activities, achieving the effects of synergy and avoiding redundancies in the activities of compliance and anti-fraud units. The paper was highly regarded in the leasing and factoring market since anti-fraud and compliance management in leasing and factoring organisations was much less in the regulator's focus until 2009. Therefore, there was no broad discussion until then in Germany in terms of establishing an appropriate compliance and anti-fraud system in the leasing and factoring businesses. The manuscript concludes with a number of practical suggestions as to how the conceptual framework could adequately be implemented in leasing and factoring businesses to enhance the efficacy of the Compliance Risk and Anti-Fraud Management.

My **sixth** article provides insight how insurance businesses practically deal with the prevention and detection of fraud cases. The paper evaluates and proposes suggestions for a holistic approach for the improvement and implementation of anti-fraud management that supports an effective system of corporate governance and risk management in an insurance business. The suggested approach to

control fraud echoes the requirements of the European Solvency II Directive. Furthermore, the article discusses the internal and external factors supporting fraud, analyses criminogenic forces in connection to their nature (organisational vs. individual) and source (internal vs. external). The key finding of the publication is that an effective anti-fraud management depends on the successful implementation of a counter-fraud programme which focuses on the following key principles:

- the company's governance and ethics policies,
- a regular fraud risk assessment to evaluate the risk of various types of fraud,
- application of preventative actions and guidelines to minimise opportunities for fraud,
- utilisation of detection procedures and
- the execution of an appropriate fraud response plan to quickly counter any fraud detected.

Another key finding was that establishing effective anti-fraud management demands a strong focus on the company's risk culture with a clear understanding of what is required in order to establish a robust anti-fraud defence in an organisation.

Following from the findings above on the importance of corporate culture in building effective anti-fraud management, my **seventh** publication deals with organisational culture and discusses practical approaches to auditing in a corporate environment and atmosphere. The behaviour of organisations and the individuals within them has become a matter of regulator concern in the UK. Both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) jointly tackle 'cultural tailings' in firms and plan to sanction the companies that fail to maintain an organisational culture that supports prudent management and governance practices. The cultural focus of the regulators in the UK challenges organisations to formulate approaches and methods to thoroughly investigate and scrutinise corporate climate and standards of behaviour in an organisation.

The paper indicates that organisational culture is of great significance, since it can be both the root of problems and an engine for corporate success and competitive advantage. The challenge lies in the fact that culture is a multi-dimensional area with both conscious and unconscious aspects, and rational and irrational components. Therefore, a holistic approach was sought in this publication in order to thoroughly and wholly scrutinise cultural aspects, since they deal with different layers spread across a business organisation. In this paper I attempt to build a basis for audit and compliance practitioners to develop audit and compliance programmes focusing on identifying criminogenic forces generated through organisational culture and cultural risks emerging in businesses.

My **eighth** publication discusses the effectiveness of internal whistleblowing mechanisms that represent a vital part of anti-fraud culture in business organisations and looks into the reasons the

whistle often remains unblown in the real world. Even though arrangements for internal whistleblowing is not a new tool, it can be argued that it fails at delivering a beneficial result. A survey about whistleblowing in workplaces conducted in 2013 by UK Public Concern at Work revealed that one third of internal whistleblowing arrangements were ineffective. The rising number of external whistleblowing indicates a lack of trust in internal reporting mechanisms and the ability of organisations to investigate the matter in an objective manner. However, the articles highlights that effective whistleblowing arrangements are an important part of a good corporate governance and an open and transparent organisational culture. They are a valuable sources for intelligence and one of the most effective instruments for the exposure of unlawful and unethical activities in and against an organisation. Companies genuinely intending to build a transparent organisational culture are bound to create a safe environment and an appropriate organisational atmosphere in which employees can raise their concerns internally without fear of reprisal or other personal consequences. The paper primarily discusses the possibilities and practical approaches to analyse the whistleblowing arrangements and helps to devise a strategy to provide assurance on the effectiveness of whistleblowing systems.

My **ninth** article elaborates on the notion that business organisations are inherently criminogenic. The paper expands on the idea that organisational criminality is not primarily influenced by deviance in individual behaviour, but is a product of an organisation's criminogenic settings and environment. In this manuscript, I argue that criminal activity arises from contact with criminogenic systems and employees' adaption to criminal behaviours which are then accepted in organisational settings. The article builds the foundation for a taxonomy of organisational criminogenesis.

My **tenth** paper attempts to connect the macro- and micro-levels of analysis by drawing on institutional theory and social psychology theory to discuss how both isomorphic¹⁰ and groupthink¹¹ processes may lead to criminal behaviour in the corporate world (Glebovskiy, 2019a). The paper is based on a rigorous review of the relevant literature and theoretical frameworks regarding isomorphic dynamics, processes, factors, forces, and mechanisms in the business context. The review was guided by the question of how isomorphic and groupthink processes can transform business organisations and their members into offenders. The approach applied was to transfer the existing theories of isomorphism and groupthink into the field of criminology, in order to devise a new model of the

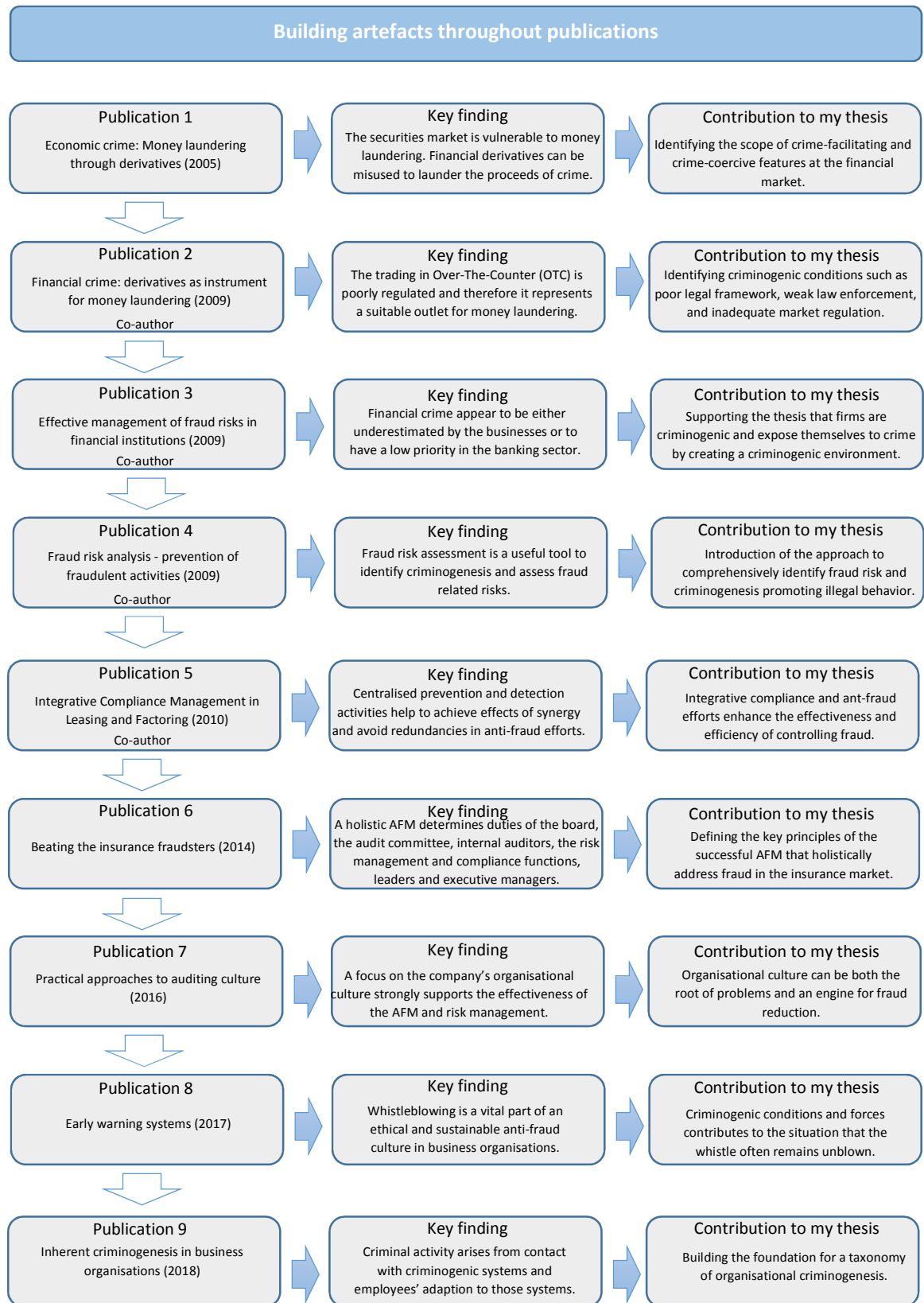
¹⁰ DiMaggio and Powell (1983) define institutional isomorphism as a tendency towards similarity and homogeneity in organisations.

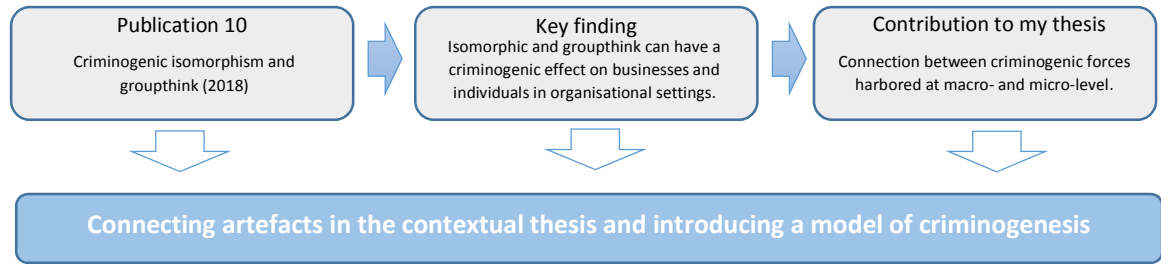
¹¹ Janis (1972) defines groupthink as a mindset adopted by members of a cohesive group which lacks critical thinking and therefore leads to poor decisions and judgements as a result of pressure to maintain group consensus.

process of criminalisation. My findings demonstrate that the effects of isomorphic and groupthink processes can have a criminogenic effect on businesses and individuals in organisational settings, which may coerce agents to engage in criminal behaviour. In crime-facilitative circumstances, isomorphism and groupthink foster criminal activity by cultivating homogeneous behaviour, conformity, resemblance, shared values, and identical ways of thinking across and within firms. This herd behaviour can be regarded as one of the explanations for the pervasiveness of criminal and unethical behaviour in the corporate world, the consequences of which can be devastating.

The following overview summarises my key findings arising from my publications and contributions to the development of my thesis in the form of this context statement. The goal of the overview is to demonstrate how the artefacts generated by publication are connected throughout my research.

Figure 5: Overview of artefacts and how they connected in this context statement





In short, during the last 13 years, I generated several findings that helped me to advance my conceptual framework explaining the antecedents of criminal behaviour and the origin of illegal conduct in the business context. In this instance, my context statement endeavours to contextualise the key findings arising from my public work, demonstrates a body of knowledge developed through research and grounded in practice, and evidences the processes through which it has emerged.

4.3.5 The process of model development

One of the most interesting aspect of my PhD is that I did not have any preconceptions when I started my research journey, about what direction the gathered material would take my work in. On the other hand, I had the liberty to adjust the direction of my research as the study process advanced. While the research progressed, I have gradually become surer about the aspirational outcomes of my study. In this way, the conceptual categories and patterns have emerged over time of approaching the phenomenon of corporate crime from different perspectives. Once as an academic researcher and once as a practitioner dealing with corporate crime issues on a day-to-day basis as a fraud investigator and auditor. This duality helped me however to discuss this topic from different angles and to find a middle ground between a practical and theoretical views on criminogenesis and the causation of corporate crime. As the data collection and analyses evolved, I narrowed down my results by condensing the findings into a conceptual framework of inherent criminogenesis.

Through this iterative research process, several artefacts and conceptual categories of criminogenesis emerged over the years, and these provided a basis for the integrative model of criminogenesis, which I will discuss later in details in this context statement. Furthermore, I attempt to generate a holistic conceptual view on inherent criminogenesis and propose an explanatory model on the causation of corporate crime (Suddaby, 2006, Peirce, 1903). Drawing on pre-existing theories and contextualising on common field of inquiry such as origin of corporate crime is the vital part of the model induction.

For the model development, I took into account existing well-known theories and conceptual frameworks on the causation on corporate crime that discuss engagement in illegal and deviant conduct but differ in their views and approach. For instance, I considered theories such as crimes of obedience (Milgram, 1974), groupthink (Janis, 1982), normalisation of deviance (Vaughan, 1998), collective reasoning (Palmer and Maher, 2006), displacement of responsibility (Hinrichs, 2007), rationalisation of criminal behaviour (Heath, 2008), cost–benefit thinking (Murphy and Dacin, 2011), moral disengagement (Carsten and Uhl-Bien, 2013), crime of the powerful (Whyte, 2009; Ruggiero, 2015a, 2015b, 2015c, 2015d).

Figure 6 below shows the range and levels of criminogenesis which build the foundation for an induction of the integrative model of criminogenesis.

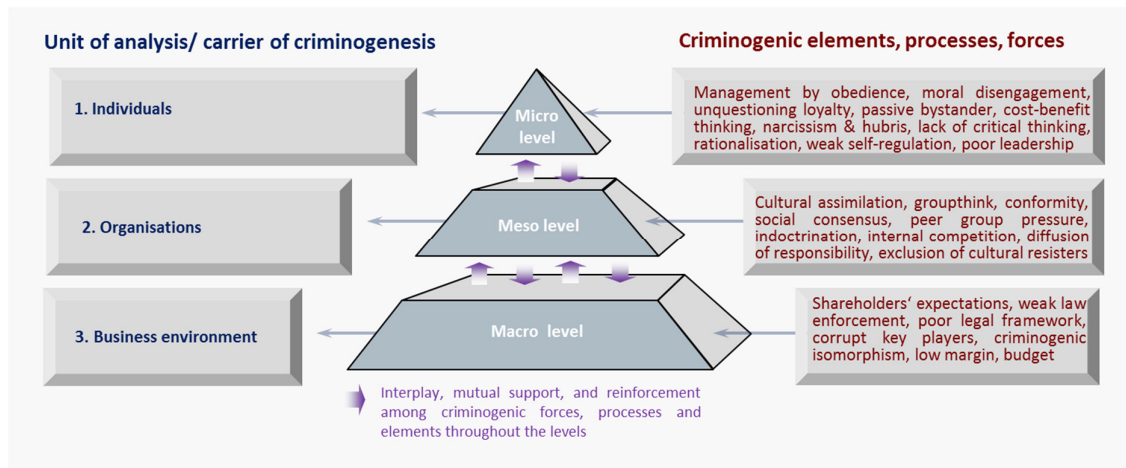


Figure 6. The range of criminogenesis under review.

My theoretical conception was grounded in the combination of the empirical data analysis (21 fraud cases), interpretation of the practical observations followed by the literature review as well as knowledge derived from academic theories and hypotheses.

For the purpose of discovering and building a model, I used a bottom-up approach, characterised by an organic process of theory development primarily based on my self-learning through systematic data collection and ongoing interpretation of the information collected (Suddaby, 2006). The key characteristic of this process is that a model is generated and shaped based on learning from experience and developing an understanding of alternative options and perspectives (Schön, 1987).

5 Current issues in the business world and consequences arising from application of the fraud triangle

5.1 Lessons learned: auditors, corporate fraud and economic crises

The financial crisis of 2008 had great impacts on the economies of various countries around the world. At a smaller scale, the crisis and collapse of Enron in 2001 contributed to the loss of jobs and retirement benefits for the company's employees and resulted in shareholders losing billions of dollars' worth of investments. In both crises, the auditors played a role through their failure to reveal and prevent the imminent crises. While the external auditors for the banking sector did not inform their clients of the impending crisis in 2008, Enron's auditor did not receive adequate information regarding the company's finances and spectacularly failed to reveal the concealment of massive liabilities from the company's financial statements.

5.1.1 Auditors and the financial crises 2008

An external auditor is primarily in charge of validating and confirming financial statements after obtaining adequate audit evidence (Kearney, 2010). Their work should provide reasonable assurance that financial reports give a true and fair view of the financial situation of businesses (Kearney, 2010). In this context, Singh (2013) describes auditors as the watchdogs that fill in the gap between the regulators and the companies. Accordingly, auditors are essentially supposed to coordinate the supervision of firms based on their expert judgment and understanding of the regulations. In his argument, Singh (2013) seems to imply that businesses relies on external auditors as part of the regulatory and supervisory teams in an ad hoc manner (Singh, 2013). His notion receives the support of various scholars and authors who witnessed the 2008 financial crisis and understood the role that auditors had to play in it (Kearney, 2010; Jones, 2011; Mathiason, 2009; Sikka, 2009).

Kearney (2010), while analysing the banking crisis in Ireland, claims that the experts who were tasked with governing and oversight of the banking sector did not give enough warning in advance to prevent the crisis. She mentions that the External Auditor that each bank hired was to look out for the interests of the shareholders but conspicuously remained silent about the imminent crisis and other concerns until the crisis had been fully felt in the financial sector. In her expression of the concern surrounding the external auditors, Kearney (2010) explains that such auditors are meant to the role of watchdogs. However, in the Irish Bank crisis, the External Auditor conducted the audits based on the International Audit Standards yet failed to proactively warn the stakeholders of the shortcomings that the banking system faced in the period prior to the financial crisis (Kearney, 2010).

Jones (2011), reporting on a House of Lords inquiry into the financial crisis, presents the house's opinion that the auditors were complacent regarding their role in the financial crisis. While noting that

the four major auditors involved in the financial crisis in the UK prior to 2008 – Deloitte, Ernst & Young, KPMG, and PwC – conducted their duties legally, the house gave the opinion that the mere conformity to the laws and regulations of the financial sector did not reflect in their honest representation of the state of the economy prior to the crisis (Jones, 2011). The external auditors were, therefore, either unaware of the imminent dangers that the financial sector faced or were at fault for their failure to share the information on these concerns with the stakeholders.

The US Securities and Exchange Commission (SEC) equally placed the blame on various auditors that were working in the banking sector prior to the financial crisis (Mathiason, 2009). The financial enterprises equally placed their blame on the external auditors for their failure to give their qualified audit opinions despite earning large amounts of money in payment efforts (Sikka, 2009). In their audit reports, the auditors were conspicuously silent about the impending financial gloom that would encompass the banking sector in 2008 (Houses of the Oireachtas, 2016). Therefore, there seems to be a consensus by governments, regulatory authorities, and the banking sector that the auditors failed in exercising their mandate by giving true and fair opinions regarding the financial position of the banks and the imminent crisis that hit the banks in 2008. This failure of auditors to discharge their mandate as watchdogs did not alert the banks to institute strategies to avoid the financial crisis of 2008.

External auditors are among the most important financial institutions in evaluating businesses and their performances. Their importance is revealed through the roles that they played in the failures to avert the financial crisis in 2008 and the collapse of Enron Corporation in 2001. In the financial crisis, the external auditors failed to forewarn the banking sector of the imminent crisis.

5.1.2 Auditors and the Enron case

Enron was an extremely prosperous and successful business entity, and its abrupt bankruptcy within a period of three months came as a shocker to many stakeholders (O'Connor, 2003). The crisis unravelled when the company revealed that in its business transactions with various partners and related parties, it had inflated its earnings for the previous five years. During that period, Enron had managed to avoid placing billions of dollars of contingent liabilities in its balance sheets, thereby displaying a false narrative of financial safety to the stakeholders (Cohan, 2002). Upon this discovery of fraudulent financial reporting, stakeholder confidence in the company plummeted, its credit ratings were hugely downgraded, and the confidence crisis led the company to file for bankruptcy (O'Connor, 2003). Enron's bankruptcy had its negative effects on all stakeholders – several workers lost their jobs as well as their retirement savings and shareholders lost billions of dollars' worth of investments in the company.

An analysis of the company's Board exposed that various corporate gatekeepers did not exercise due diligence to understand the financial position of the company (Cohan, 2002). Among these parties that were to blame are the auditors, analysts, investors, credit bureaus and rating agencies, regulators, and investment bankers among others (O'Connor, 2003). Especially auditors – both internal and external – stand out as entities that were culpable for the crisis and the collapse of the corporation. Cohan (2002) elucidates the contribution of information blockage to the failure of the company's officers to report the liabilities that the organisation had in the financial reports. Arthur Anderson, which was Enron's chief External Auditor, reported that the company had withheld important financial information regarding its finances, thereby contributing to the lack of a true and fair audit report on the firm's finances (Cohan, 2002).

Tourish and Vatcha (2005) also mention that the company's accountancy practices led to its spectacular failure. Furthermore, the authors introduce a new dimension to the failure: the poor leadership practices and the internal culture that led to the organisation's failure to reveal important information to auditors and other stakeholders (Tourish & Vatcha, 2005). Law (2010), while investigating the employability of auditors with former audit clients, develops a report that seems to imply that the relationship between Enron and its external auditor became strained after details of the crisis surfaced. It is worth noting that the external auditors failed to perceive the errors in the company's bloated financial statements, putting the blame on Enron's concealment of important financial information from the auditors (O'Connor, 2003). Consequently, the relationship between auditor and client was severely impaired as both parties blamed the other for the failure to avert the crisis (Law, 2010).

Most of the reports regarding Enron's collapse place the emphasis on the leadership, the company culture, and internal processes. However, Cohan and Zhang (2006), after investigating Arthur Anderson's clients following the auditor's unprecedented demise after the Enron debacle, note that the external auditor was equally at fault in its handling of Enron's financial statements. The investigation revealed that Arthur Anderson's audit reports and financial statements for various clients were considerably less credible and had high probabilities of misstatements (Cahan & Zhang, 2006). It is conceivable that Enron's external auditors failed to actively seek for the necessary financial information that could have enabled them to perform their duties. Furthermore, Arthur Anderson confirmed the company's ability to continue making money and did not capture the huge liabilities that Enron had prior to its collapse (Feldmann & Read, 2010). In this context, the external auditor contributed to the collapse of Enron by failing to accurately assess the company's liquidity condition and its ability to fund its operations in both the near and the far future.

5.1.3 Financial crime and economic cycles

Financial crime has been a prevalent phenomenon for centuries. In his book *Dirty Money: On Financial Delinquency*, Vincenzo Ruggiero (2017) documents the existence of financial crime from as early as the Late Middle Ages. From the financial crashes of 16th-19th centuries to the financial crashes of the 20th and 21st centuries, Ruggiero (2017) makes a fundamental observation: an association between economic cycles and financial crime. Other literatures on this topic suggest that the level of financial crime is significantly influenced by the state of the economy (Isola *et al.*, 2017; Tomasic, 2011; Podgor, 2010; Valukas, 2010).

Is there a correlation between financial crime and economic cycles? Understanding the link between financial crime and economic cycles has important policy and practice implications for the prevention of financial crime. Based on empirical evidence, it is arguable whether the incidence of financial crime increases during economic recessions or during economic booms.

Empirical evidence has suggested that financial crime is likely to occur during periods of economic boom (Ruggiero, 2017; Valukas, 2010). Bernard Madoff, one of the most renowned American fraudsters currently serving a 150-year sentence for his engineering of the largest ponzi scheme in world history, made the most money during economic booms (Tompkins, 2009). Following his analysis of 23 economic recessions in the U.S. from the 20th century to the 21st century, Valukas (2010) found a significant positive association between economic growth and financial crime: the incidence of financial crime was higher during economic booms compared to other periods. Nonetheless, as it emerged in the aftermath of the 2008 global economic recession, financial crimes can also occur when the economy is not doing well. A survey of U.S. firms conducted after the 2008 financial crisis revealed that the risk of financial fraud was higher during the crisis, with firms losing an average of \$15.2 million to fraud between 2007 and 2009 (Tompkins, 2009). However, most of the financial crimes that occurred during this period were small-scale crimes such as mortgage fraud, insurance fraud, and credit card fraud as opposed to large-scale crimes such as ponzi schemes (Whitelaw, 2009). This suggests that though economic recessions and economic booms can both predict financial crime, the scale of crime is likely to be smaller in the former than in the latter.

An important question to answer is how an economic recession or boom predicts financial crime. An economic boom is characterized by greater supply of money in the economy. As a result, individuals and firms tend to be more willing to invest the excess money they hold (Isola *et al.*, 2017). This serves as an incentive for fraudsters to engineer fraudulent schemes such as ponzi schemes, high yield investment fraud, and advance fee fraud to take advantage of the economic boom (Isola *et al.*, 2017). Valukas (2010) offers an even more compelling explanation for the link between economic boom and

financial crime: when the economy is performing well, regulatory oversight tends to diminish, increasing the likelihood of financial crime. In particular, during prolonged periods of economic growth, regulatory authorities are pressurised not to constrain economic prosperity through stringent regulation, which creates room for criminal activities to proliferate without detection (Valukas, 2010). Even so, this does not necessarily mean that financial crimes cannot occur during periods of economic decline. During an economic recession, the circulation of money in the economy decreases, reducing the motivation for fraudsters to invent fraudulent schemes (Isola *et al.*, 2017). For firms, the pressure to conceal their deteriorating financial performance during an economic recession may be intense, resulting in financial statement fraud (Isola *et al.*, 2017). Moreover, the financial difficulties associated with an economic recession may cause firms to engage in fraud to reduce costs or maintain profitability (Huisman, 2011).

However, some studies have shown that the incidence of financial fraud is not entirely dependent on economic cycles. In a mixed methods study involving 250 fraudsters and 50 fraud managers in Nigeria, Isola *et al.* (2017) found that though a significant association between fraud and economic cycles existed, the extent of fraud committed was not solely predicted by economic recessions or economic booms. This implies that financial crime can occur whether there is economic recession/boom or not. This was especially evident during the 2008 financial crisis. According to Fligstein and Roehrkasse (2016), financial crime during the crisis was largely motivated by regulatory deficiencies as opposed to the crisis itself. This view has been supported elsewhere (Tomasic, 2011; Podgor, 2010). Other perspectives have suggested that financial crime is a cause of economic recession rather than its outcome (Huisman, 2011; Podgor, 2010). The 2008 financial crisis is an ideal example: wide-ranging investigations conducted in the wake of the crisis revealed that a series of financial crimes committed by financial institutions from the early 2000s led to the crisis (Ryder *et al.* 2014). As Whitelaw (2009) puts it, the 2008 economic recession did not lead to financial crime: it exposed the crime, a sentiment shared by Valukas (2010). Thus, it can be argued that an economic recession may not necessarily be a predictor of financial crime. The correlation between financial crime and economic cycles seems unclear. Some studies suggest that financial crime tends to occur more rampantly during economic booms, while others have found evidence of an association between economic recessions and financial crime. The ambiguity of the financial crime-economic cycles relationship is further complicated by the fact that financial crime itself can be a cause of economic recession, with the 2008 financial crisis being an ideal example. Whereas it is less clear whether the prevalence of financial crime is higher during economic booms or economic recessions, one thing is clear: both economic booms and economic recessions are important predictors of specific *modi operandi* of financial crime. The scale of crime may be different in the two cycles, with large-scale financial crimes more likely to occur during

economic booms and small-scale financial crimes more likely to occur during economic recessions. Governments and businesses must remain vigilant during both economic recessions and economic booms if they are to effectively combat financial crime.

5.1.4 Measures after the 2008 crisis

The fact that the 2008 recession was an outcome of financial crime necessitated measures on the part of governments and businesses to prevent the occurrence of a similar economic crisis in the future (Ryder *et al.* 2014). In the U.S., the crisis especially heralded a new era of financial regulatory reform. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted (Guynn & Polk, 2010). The legislation prescribed more stringent regulations on aspects that contributed to the crisis, such as executive remuneration, bank capital requirements, derivatives trading, securitisation, credit rating agencies, and financial disclosure (Guynn & Polk, 2010). The effectiveness of the legislation remains a hotly debated topic close to a decade after its enactment, but it marked the most wide-ranging financial regulatory reform in the U.S. since the 1930s Great Depression. In Europe, Basel III was introduced to tighten regulatory oversight over financial institutions (Ruggiero, 2014). The new regulatory framework imposed stricter regulations on aspects such as bank capital, leverage, liquidity, and counterparty risk (Eubanks, 2010). Similar to the Dodd-Frank Act, the Basel III regulatory framework has attracted its fair share of criticism since its adoption, but it has made considerable contributions to the prevention of financial crimes, especially in the banking industry (Giordana & Schumacher, 2017).

On their part, firms implemented a raft of measures to serve as deterrents against financial crime. In particular, many financial institutions undertook comprehensive adjustments in their corporate governance and executive remuneration structures. Laxity in corporate governance was one of the factors that provided a breeding ground for financial crime leading up to the financial crisis (Vasudev & Watson, 2012). Influenced by the ensuing regulatory reforms, many firms implemented sweeping changes in aspects such as ethical code of conduct, board composition, executive power, shareholder involvement in decision making, and risk management (Mulbert, 2010). Another factor that contributed to fraudulent activity during and in the few years preceding the crisis was excessive remuneration (Kwapil, 2010). Accordingly, reducing executive remuneration was crucial for preventing financial crime in the future. Though executive salaries and bonuses in the banking sector have since recovered from their post-crisis lows, they are not as high as they were prior to the crisis: executives of top banks still earn less than they did during the crisis and before (Podkul, 2018). Coupled with regulatory reforms, firm-level reforms have played an instrumental role in minimising the prevalence of financial crime in the corporate world.

Even though there are many lessons learned from the financial crises, but most likely not everything has been learned properly. The success of the bailouts of 2008 may have diluted the lessons of the crisis. After the 1930 and 1940 crisis, the finance system was designed with completely new restrictions

and regulations which had its costs. However, it aided in lasting decades before having another economic crisis. After the 2008 crisis, the system survived, which is a positive thing, however, it could also mean that we are going to have more learning experiences sooner as it is expected.

5.2 Motivation to reduce fraud in the business world

Academics and professionals debate the causes of organisational deviance in the quest for the causation of corporate crime. Anti-fraud practitioners along with scholars have sought to enhance their understanding of the 'dark side' of organisations (Vaughan, 1999) with the purpose of devising measures to effectively prevent and detect illegal activities in the business context.

By its nature, fraud is an unwelcome side-effect of normal business operations and it is an inevitable cost of doing business (Needleman and Needleman, 1979). The motivation of businesses to successfully tackle this issue lies in pragmatic reasons. One of the goals pursued by businesses is to improve companies' bottom lines by reducing the cost and business interruptions caused by crime. A further aim is to build up and promote a positive image of the company in the perception of the broader public by avoiding negative news in relation to misconduct and fraud.

The other reason for firms' fight against illegal activities is legal requirements for companies on prevention of criminal activities. Examples of legally binding regulations are laws such as the FCPA in the USA, the Bribery Act in the UK, or the Fourth Anti-Money-Laundering regulations in the EU. Full compliance with those regulations is a sensible strategy for the businesses from an economic point of view – adherence to the legal requirements reduces the risk of regulatory fees and legal penalties which may result from non-conformance.

Consequently, the prime responsibility for effective anti-fraud management in the businesses has been placed with executive management of the companies. Placing the responsibility on companies' management caused an avalanche effect on corporate structures, allocation of duties and creating new job functions and positions across businesses. For instance, cascading and sharing the responsibility for fraud prevention, businesses started to internally establish anti-fraud units, nominate Compliance and Anti-Fraud Officers, and hire external advisers and experts for advising on anti-fraud policies and arrangements.

In a similar vein, the duties of auditors have been extended to embrace the domain of fraud. The adjustment and review of auditors' responsibilities for the prevention and detection of fraud was triggered through accounting fraud scandals linked to 'audit failures' to timely spot fraud indicators and detect fraud engaged in audits (Mokhiber, 2006). Accordingly, the public and regulatory pressure prompted the review and reform of traditional audit methodologies (Power, 2013 p. 532). The responsibilities of external and internal auditors have been expanded due to the fact that their remit now embraces the application of a risk-based approach, assessment of fraud risk, identification of flaws in the internal control systems and detection of fraudulent activities (Alleyne & Howard, 2005;

IFAC, 2006). In consequence, the auditors professionally share the responsibility with the management to avoid financial loss, regulatory censure and reputational damage emanating from criminal activities (Power, 2013 p. 537).

After several accounting fraud scandals such as Enron WorldCom, BASF, and Exxon (Mokhiber, 2006), accounting and auditing professional institutions (AICPA, IFAC, CIMA, CAQ and IIA) were under pressure to re-assert the auditors' ability to identify the fraud in order to maintain the public trust in the quality of their work. This prompted the associations to create several professional standards for accountants and auditors, clarifying their responsibilities in relation to fraud. However, these standards heavily rely on the logic and rhetoric of the fraud triangle model in guiding auditors on how to address fraud identified or suspected during audit activities.

The reproduction of the fraud triangle framework by accounting and auditing institutions has mobilised the application of the fraud definition advocated by the ACFE across accounting and auditing professions. The elements of the fraud triangle have a trajectory of formation which begins with auditing and expands further into risk management, internal control, and advisory markets. The triangle is used by accountants, auditors, compliance and anti-fraud specialists as a template to identify fraud and explore the root-causes of fraudulent behaviour. Consequently, the model is traditionally used to analyse and categorise fraud cases along three conditions of the fraud triangle concept, e.g. opportunities, pressures, and rationalisations to commit fraud.

5.3 ACFE and its widespread vision of fraud prevention

The Association of Certified Fraud Examiners (ACFE), which was founded by Joseph Wells, is a main proponent of the fraud triangle model. The association conveys a particular vision on fraud detection and prevention by advocating the fraud triangle discourse, in order to make the concept be regarded as best practice for practitioners. As a result, the professional associations related to external and internal audit such as the American Institute of Certified Public Accountants (AICPA), International Federation of Accountants (IFAC), the Chartered Institute of Management Accountants (CIMA), the Center for Audit Quality (CAQ) and major accounting companies (KPMG, EY, PwC and Deloitte) have regularly used the three dimensions of the fraud triangle model to explain the root-cause of fraudulent behaviour (Morales *et.al*, 2014). In the professional world, the fraud triangle became a worldwide blueprint. Fraud has been repeatedly explained through the three dimensions of the fraud triangle: incentives to commit fraud, opportunity to carry out fraud, and capabilities to successfully rationalise fraud (AICPA, 2002; IFAC, 2006; CIMA, 2008; CAQ, 2010).

Furthermore, Committee of Sponsoring Organisations of the Treadway Commission (COSO) fully relied on the ACFE rhetoric to advice companies in their endeavour on the fraud risk evolution. The fraud risk assessment should be performed along three factors: incentive/pressures, opportunities, attitudes/rationalisations (COSO, 2012, p. 78). This gives the impression that the fraud triangle model accurately reflects the essence of illegal activities in the practice.

The replication of the logic of the fraud triangle by the accounting organisations fosters the widespread use of the model among the businesses and legitimises ACFE views on how fraud should be prevented, deterred and detected in practice. The triangle concept remains a feature of contemporary auditing philosophy and has been solidified through the repetition and institutionalisation of accounting and auditing organisations.

However, the promotion and re-enforcement of the triangular explanation of fraud is one-sided, does not consider other criminological perspectives and lacks any alternative views. There is little evidence to support the claim of the ACFE that the fraud triangle model is a comprehensive theory of fraudulent behaviour (Morales *et.al*, 2014).

The accounting and auditing institutions help to solidify the fraud triangle in the minds of companies' management without considering that a partial explanation on fraud causation merely leads to a partial solution to fraud reduction. Auditing standards giving guidelines on dealing with fraud-related topics for internal and external auditors provide a false sense of security for managers and anti-fraud practitioners by relying solely on the fraud triangle rationale.

5.4 Consequences for praxis from application of the fraud triangle

The ACFE puts a lot of effort into promoting the fraud triangle by building a network of fraud triangle proponents and fostering the naturalisation and embedding of the fraud triangle into the fraud detection and prevention strategies of businesses. The spread of the fraud triangle model in the business world has led to several (positive and negative) knock-on effects in praxis (Morales *et.al*, 2014). In summary, it can be said:

- As the best practice approach, business organisations implement mechanisms to control fraud risk along the three dimensions of the fraud triangle.
- There is a tendency to normalise fraud as a business cost.
- The fraud triangle provides the rationale for constant vigilance among organisation members to keep other colleagues under surveillance to identify deviant individuals whose behaviour fits into the 'fraudster' profile.
- The fraud triangle tends to be interpreted more at an individual level, with preconceived notions of the antecedents of fraud. The model positions the employee as a vector of danger and the source of fraud risk, and cultivates an atmosphere of suspicion in business organisations towards employees and managers, especially if they fit the risk profile.
- Companies and especially the management of business organisation are held responsible for establishing proper controls for preventing and detecting fraudulent behaviour.
- In cases of fraud, individuals committing fraud and the organisation which allowed those activities are likely to share culpability for fraudulent behaviour. This is due to the fact that the triangle model explains fraudulent behaviour through immoral individuals and the failure of organisations to establish a proper structure of control around fraud risk.
- The main focus of anti-fraud efforts are on strengthening of internal controls, and promotion of a hostile climate associated with increased organisational suspicion and surveillance.
- Companies which don't deploy organisational surveillance to control moral deviance, may be viewed as negligent.

The above points are the overarching 'lessons' from the fraud triangle concept promoted by ACFE as the ultimate tool for fraud prevention and detection.

There have been several attempts made by academics and practitioners to modify the model. Pressure can be replaced by motive (Fitzsimons, 2009; Murdock, 2008), opportunity with the effectiveness of internal control (Fleak *et al.*, 2010; Kelly & Hartley, 2010) and rationalisation with the morality of the organisation's members (Cohen *et al.*, 2010). However, a simple refinement of the fraud triangle model and modification of the three main blocks is not sufficient to take the model to the next level. The

model is limited *per se* by making only three factors responsible for creating a fraud-friendly climate and for outbreaks of illegal behaviour.

Furthermore, there is a tendency among auditing standard setters as well as regulatory bodies to normalise fraudulent behaviour and to treat fraud as one of many operational risks faced by businesses. The Basel Committee on Banking Supervision (BCBS) defined internal and external fraud as a subset of operational risk which is “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events” (BCBS, 2011).

The effect is that fraud is conceptualised in the regulatory guidance as a risk factor that can be analysed, assessed, mitigated and managed like any other risk (FSA, 2006; Power, 2013, p. 534). The expression of this trend can be found in the practical world in forms of fraud risk assessments, fraud risk registers and ‘fraud-risk heat maps’ (Bishop & Hydoski, 2009).

A concerning shift in the general discussion and dominant logic among anti-fraud professionals on the nature of fraud is the view that fraud arises from human-originated operational errors and therefore can to be regarded as being similar to mistakes (Power, 2013, p. 534). On the other hand, ‘error’ and ‘mistake’ sound innocent, whereas fraud is not innocent. However, fraud is being posited at the same level of severity as errors and mistakes, which trivialises fraudulent activities in wider perception and suggests that fraud is not a criminal offence. Furthermore, the treatment of fraud as if it were a human error contradicts the element of intention that is part of fraudulent activities. There is no such thing as unintentional or accidental fraud. Yet, the expansion of this rhetoric and this treatment of fraud risks in the professional world is a widely accepted fact (Morales *et.al*, 2014; Power, 2013; COSO, 2004, COSO, 2012).

Additionally, the trajectory of treating fraud cost as normal part of business activities suggests that businesses should develop a certain level of tolerance for ‘accepted’ losses occurring from illegal activities (FSA, 2006). The question is then why should best practice and regulation guidance be written to reduce and prevent occurrences of fraud, when it is viewed as an acceptable event?

Anti-fraud practitioners influenced by the fraud triangle model have traditionally focused their efforts on developing measures which primarily address individual offenders and the personal circumstances associated with their illegal acts (Wheeler, 1976).

The dominant mode of anti-fraud management (AFM) involves a mix of control of facts, governance processes, policies, procedures, specific technologies, early warning indicators with a strong foundation in audit and accounting expertise (Power, 2013, p. 539). Conventional AFM places the emphasis on denying opportunities for deviant individuals through a web of “hard and soft” controls

(e.g. IT detection tool and ethical codes). Recurring cases of fraud imply that conventional AFM is neither effective nor functional, so that the business find themselves 'constantly surprised' by fraud cases (Power, 2013, p. 541).

Enron is a perfect example of how controls can be used as windows dressing. The company had a formal code of ethics in place, deployed a Risk Assessment and Control group, and featured seemingly serious control infrastructure which was regularly audited by external auditors (Free *et al.*, 2007, p. 4). The AFM of Enron ticked all boxes of a lauded anti-fraud system, but with the wisdom of hindsight, was lacking in efficacy.

6 Literature review

6.1. Organisational criminogenesis: theoretical background

Anti-fraud and compliance practitioners, along with many scholars and researchers, have traditionally focused on developing anti-fraud measures that primarily address individual offenders and their personal circumstances (Wheeler, 1992; Needleman and Needleman, 1979; Simpson and Piquero, 2002). The dominant tradition in criminology has been to treat individuals as the predominant units of analysis (Cressey, 1953), to the exclusion of other domains, e.g. business organisations, the sociology of organisations, and the situated aspects of illegal activities (Coleman and Ramos, 1998; Vaughan, 2002a).

Needleman and Needleman (1979, p.518) proposed that criminal behaviour in businesses is a “... predictable result of the individual’s membership in or contact with certain organisational systems”. Such systems are criminogenic because they lead to crime owing to their distinct features, structures, and internal processes, regardless of the degree of an individual’s criminal motives (Leonard and Weber, 1970; Farberman, 1975). Therefore, the criminal behaviour of an employee or a business organisation can be seen as a normal side-effect of legitimate company activity (Needleman and Needleman, 1979; Coleman and Ramos, 1998). This implies an intrinsic tendency for business organisations and employees towards engaging in illegal and unethical activities (Perrow, 1986).

The literature gives several reasons why companies tend to be criminogenic, such as recruiting and attracting similar individuals, and the lack of the cultural, ethical, and mental diversity of a company (Coleman and Ramos, 1998; Frey, 1994; Vaughan, 1999, 2002a). Furthermore, the range of organisational criminogenesis encompasses blind loyalty and unquestioning compliance, coercive group thinking and the herding effect, a lack of critical thinking and challenging of management decisions, neutralisation processes and the normalisation of deviance, and rational choice and cost-benefit thinking (Ashforth and Anand, 2003; Frey, 1994; Hamilton and Sanders, 1992; Vaughan 2002a).

Stone (1975, p. 236) identified several criminogenic features of business organisations: “ambitions for profits, expansion, power; desire for security at both corporate and individual levels; fear of failure; group loyalty identification; feelings of omniscience; organisational diffusion of responsibility; and corporate ethnocentrism”. Moreover, Clinard and Yeager (1980) suggested that the company size, hierarchical structure, and the nature of organisational goals are conditioning factors conducive to organisational deviance. Furthermore, Heath (2008, p. 605) identified additional factors supporting criminogenesis in businesses, including the general ideological unfriendliness to government and market regulations, resulting in a diminished respect for the law and adversarial competitive strategies.

6.2 Criminogenic conditions, processes, factors and forces in businesses

As most employees have the resources to succeed legitimately, and most were not raised in a criminogenic social setting, other factors (beyond individual control) cause corporate crime, explaining why educated, affluent, and seemingly conventional people commit crimes in the corporate environment (Apel and Paternoster, 2009).

According to Tittle (1995), deviant behaviour in business organisations includes most, but not all, illegal and unethical acts. Vaughan's (1999) "normalisation of deviance" theory describes the origins of deviant behaviour to comprehend the source of organisational crime. Routine nonconformity, and even organisational crime, are a persistent outcome of virtually every socially organised system and, therefore, are a normal by-product of organisational processes and systems, including business activities. Deviant conduct results from a social process that normalises this behaviour over time, especially if the behaviour conforms to the norms of the system (see also Kramer, 2010). Even if the deviant behaviour may infringe upon external social or legal norms, organisational actors generally do not view their behaviour as deviant (Vaughan, 1999).

Criminogenic processes in organisations are also affected by rationalisation techniques, or neutralisation methods, applied by individuals to reject or justify the illegality of their actions, either before or after committing a crime (Sykes and Matza, 1957). However, these thought processes are common to everyone, and explaining what ultimately leads to committing a crime most likely depends on how convincingly an individual can convince himself/herself that their justification is sound.

Heath (2008, p. 611) built on the Sykes and Matza's (1957) ideas, suggesting that rationalisation techniques are also prevalent in the business world. As with individual offenders, it can be argued that neutralisation processes are an intrinsic part of organisational group thinking, since an organisation is represented by an assembly of individuals. Heath (2008) categorised the techniques of neutralisation in seven groups: denial of responsibility; denial of injury; denial of the victim; condemnation of the condemners; appeal to higher loyalties; a view that everyone else commits crime; and a claim to entitlement.

The efficacy of these neutralisation processes lies in successful self-deception. However, this justification can be effective in an organisational environment, where this line of argument is acceptable, or at least not actively disapproved of.

Furthermore, rational choice theory holds that, in any given situation, individuals carefully weigh the associated benefits and costs (Kramer, 2010). Therefore, if the benefits outweigh the costs, the individual is likely to execute the action (Gobert and Punch, 2003). Kramer (2010) suggested that

calculated decisions on the costs and benefits of wrongdoing take place in organisations because the definitions of what is illegal, unethical, and normative have been determined within the social setting of business organisations.

There is consensus among organisational sociological perspectives that organisational crime is mostly shaped by criminogenic processes, e.g. normalisation of deviance, rationalisation techniques, and cost–benefit thinking beyond individuals’ control (Vaughan, 1998; Apel and Paternoster, 2009; Clubb, 2014). However, these criminogenic processes have an element of genuine self-deception, creating conditions in which it is relatively easy for individuals to legitimise their inappropriate behaviour.

Broadly, there are two types of criminogenic factors that lead to criminality in businesses: crime-coercive factors and crime-facilitative factors (Needleman and Needleman, 1979). Whereas crime-coercive factors create conditions that *pressurise* individuals to commit crime, crime-facilitative factors *entice* them to commit crime (Gobert and Punch, 2003).

Some organisational conditions that may compel individuals to commit crime include organisational culture and structure, groupthink and hierarchical elements, authoritative leadership and unquestioning obedience to the management, unrealistic business goals, and a high degree of competitiveness in the workplace.

Examples of crime-facilitative factors and conditions include structural complexity and a lack of transparency allowing crimes to be disguised, poor internal control, and the risk management system allowing the crime to remain undiscovered. In summary, crime-facilitative conditions exist where high incentives and opportunities to commit crime are coupled with the low risk of discovery.

In practice, there is often a blend of both crime-coercive and -facilitative components. The challenge for researchers is to precisely identify which one was the main trigger for a criminal event.

6.2.1 Crime-coercive factors

Crime-coercive factors compel individuals in an organisation to commit crime (Needleman and Needleman, 1979); therefore, committing crimes within the corporate system is largely inevitable. This view essentially agrees with the notion of normalisation of deviance. As previously discussed, it has been suggested that corporate crime is promoted, justified, tolerated, and sustained by members of an organisation. Motivated by profit maximisation goals and personal interests, management might create systems that promote unlawful behaviour.

One important organisational aspect that compels individuals to commit crimes is performance pressure (Pinto *et al.*, 2008), linking pay to performance, but usually without ethical guidelines

regarding how those goals should be achieved (Jurkiewicz and Giacalone, 2014). The compulsion to engage in unlawful practices may be even greater if employees are threatened with dismissal or demotion for failing to meet targets. Using Barings PLC (one of the largest banks in the UK, and globally, prior to its collapse in 1995), Ramanujam and Goodman (2003) demonstrated how performance orientation can compel employees to engage in criminal practices (Nick Leeson, a Barings PLC employee in its Singapore subsidiary, undertook speculative investments that led to the collapse of the bank). Performance orientation and other organisational antecedents lead to criminal behaviour through moral disengagement, i.e. individuals start to rationalise negative actions (Moore, 2008). Facing impractical or difficult-to-achieve performance targets, individuals are likely to use any means necessary' to achieve them (Johnson and Buckley, 2015, p. 295), e.g. the 2016 Wells Fargo fake accounts scandal (Kouchaki, 2016) and the cases of Lehman Brothers and Bear Stearns during the 2007/2008 global financial crisis (Bebchuk *et al.*, 2009). Though the crisis has been attributed to several factors, unattainable performance-based remuneration played an instrumental role.

In summary, individuals in an organisation may have little or no possibility of resisting criminogenic pressures. The problem lies with management creating conditions that effectively compel subordinates to commit criminal and unethical acts (Needleman and Needleman, 1979). While crime-coercive factors offer a useful understanding of criminogenesis, there are some important limitations. The model assumes that all individuals comply with criminogenic pressures; however, there are exceptions, e.g. cultural resisters or whistle-blowers. Farberman (1975) revealed a significant number of franchised auto dealerships do not engage in the shady sales practices prescribed by the oligopolistic car manufacturing industry, suggesting:

- criminogenic pressures may not operate evenly; and
- criminogenic pressures influence criminal behaviour only in the presence of other factors.

These factors relate to the nature of the industry and the business market. For instance, in a highly concentrated industry, such as banking or car sales, criminogenic pressures may produce more corporate crime than industries with little or no concentration.

6.2.2 Crime-facilitative factors

Crime-facilitative factors promote criminal activity in less noticeable ways than crime-coercive factors (Gobert and Punch, 2003). Employees engage in criminal practices not through compulsion, but enticement (Needleman and Needleman, 1979). As decision makers may perceive measures to deter corporate crime to be detrimental to achieving organisational objectives, especially profit maximisation, conditions that facilitate crime are permitted to endure, supported by corporate culture and structure (Vaughan, 1999).

How work roles are defined and organised affects how employees exercise their moral character (Vriens *et al.*, 2016), i.e. organisational structure can either promote or frustrate moral behaviour. Jurkiewicz and Giacalone (2014) observed that the formal division, grouping, and coordination of organisational functions significantly contribute to the moral disengagement that is usually the predecessor of criminal acts.

Organisational structure involves elements including organisational hierarchy (Pinto *et al.*, 2008), which can constrain communication and information sharing, frustrate reporting relationships and inter-functional cooperation, and hinder change, consequently promoting deviant behaviour (Jurkiewicz and Giacalone, 2014). The association between organisational hierarchy and corporate crime is especially prevalent at higher levels of the organisational hierarchy (Clubb, 2014).

Other aspects of organisational structure that may facilitate organisational crime include processes, tasks, and departmental boundaries (Vaughan, 1999; Pinto *et al.*, 2008). In the 1980s, insider trading scandals occurred due to, among other factors, loose positional relationships between investment bankers, which made supervision and monitoring difficult (Pinto *et al.*, 2008). A decentralised corporate structure, in which subsidiary managers are granted decision making autonomy, may also present opportunities for criminal behaviour (Vriens *et al.*, 2016). This, however, does not necessarily mean that centralised structures do not present opportunities for unlawful and unethical practices (Jurkiewicz and Giacalone, 2014).

Other organisational antecedents include: monitoring systems, organisational culture, and leadership. Weak monitoring mechanisms diminish vigilance and remedial actions, consequently creating conditions for crime. Furthermore, organisational culture denotes the explicit and implicit values, beliefs, principles, traditions, and practices that govern organisational behaviour (Morrill, 2008). The literature has broadly supported the link between organisational culture and organisational crime (Shover and Hochstetler, 2002; Jurkiewicz and Giacalone, 2014). In a culture where deviance or unethical behaviour is not punished, employees are likely to engage in criminal acts (Moore, 2008; Apel and Paternoster, 2009).

Closely related to organisational culture is leadership. Organisational leaders play an integral role in defining and enforcing the culture of the organisation. Theoretically, in an organisation where leaders constantly portray and emphasise ethical values, unethical behaviour is likely to be minimal, though, in practice, this is rarely the case (Jurkiewicz and Giacalone, 2014). From the perspective of moral disengagement, Johnson and Buckley (2015) explained that organisational leaders may manipulate their followers to commit corrupt practices that advance organisational goals and objectives, leading to incomppliance and malpractice being viewed as acceptable.

Theories such as institutional theory (Lounsbury and Beckman, 2015), social theory (Davis, 2006), as well as transaction cost economics, resource dependence theory, and agency theory (Davis, 2010), demonstrate the influence of crime-facilitative forces on the behaviour of employees and business organisations. Further, different industries have different regulations, legal structures, and opportunities for illegal acts (Pinto *et al.*, 2008). Therefore, criminal activity tends to be higher in some industries than others (Tillman, 2009). In a highly regulated industry, such as the pharmaceutical industry, organisations may try to influence regulatory bodies to relax regulatory oversight.

The financial securities industry is an especially good example of an industry with crime-facilitating conditions. In the 1970s, outsiders often colluded with insiders to commit fraud, e.g. creating fake securities or converting fake or stolen bonds and shares into loan collateral, letters of credit, and other negotiable instruments (Needleman and Needleman, 1979). Needleman and Needleman (1979) explained that the inherent features of the securities industry played a crucial role in facilitating fraud, particularly legal liability, market flow incentives, and commerce traditions in the industry. Fraud remains widespread in the securities industry, including misrepresenting information to investors, misadvising clients, pyramid schemes, hedge fund fraud, foreign currency fraud, and insider trading (Rose, 2010).

Despite the pervasiveness of fraud in the securities industry, the industry seems ineffective in deterring crime. While the industry may wish to address the weaknesses that facilitate crime, doing so may be detrimental to the industry and the business itself (Needleman and Needleman, 1979). However, corporates, regulatory bodies, and law-makers can still address structural conditions that facilitate crime. In the last few decades, sweeping reforms have been undertaken in the US to prevent corporate crime, e.g. the Sarbanes-Oxley Act (SOX) of 2002 and the Dodd-Frank Act of 2010. Such reforms are intended to eliminate structural conditions that facilitate and coerce criminality in business organisations. For example, in the wake of accounting scandals at firms such as Enron, Tyco, and WorldCom, SOX was introduced to enhance corporate oversight and financial reporting by prescribing tougher penalties for financial fraud, requiring top executives to individually verify the correctness of

financial reports, as well as increasing the autonomy of external auditors. Despite such reforms, however, corporate crime remains widespread.

Vaughan (1999) argued that uncertainty emanating from the environment in which organisations operate makes it difficult for companies to accurately predict conditions that may affect business activities in the future. In an uncertain environment, organisations constantly adjust their processes, structures, activities, strategies, and policies to adapt to the legal, regulatory, and market environment. For example, an organisation may adjust its processes and policies following new regulations to improve transparency and accountability in the corporate environment. However, the very institutional rules intended to deter misconduct in the corporate environment may also create opportunities for deviance: they can lead to mistakes, misconduct, and deviant behaviour, as well as conflicts of interest, political conduct issues, and inter-organisational power struggles (Vaughan, 1999). These issues facilitate organisational crime by undermining how incidents of criminality or unethical behaviour are monitored, investigated, and responded to.

Regulations prescribe punishment for organisations that violate legal norms. Nonetheless, institutional rules may encourage the emergence of organisational crime, making legal or regulatory deterrence ineffective to some extent (Vaughan, 1998). Tillman (2009) used the late 1990s California energy crisis, regulations in the energy derivatives market, and accounting rules relating to the treatment of stock options in financial statements to illustrate how market regulations and institutional rules facilitate organisational crime. In the late 1990s, the Californian electricity market was deregulated, radically changing the generation and distribution of power in the state, presenting private energy firms such as Enron with opportunities for fraud.

In the energy derivatives market, failure to regulate energy derivatives in the late 1990s presented an opportunity for energy trading firms to engage in fraudulent practices, regularly collaborating to report artificially high revenues to inflate their stock prices. During the same period, taxation laws and accounting standards enabled corporations not to treat stock compensation options for CEOs as liabilities. Therefore, firms such as Enron inflated their earnings, effectively reducing their tax burden and misrepresenting their financial performance to investors. In these cases, private players, in conjunction with legislators and regulators, played an instrumental role in changing the regulatory environment in the energy market, opposing regulatory oversight in the energy trading market, as well as campaigning against accounting and tax changes. From Tillman's (2009) study, it is evident that the regulatory environment in which organisations operate is inherently criminogenic, meaning organisational crime is a systemic phenomenon.

In these cases, firms did not just engineer regulations that would benefit them or campaign against regulations that would hurt their interests, but also actively undertook protective measures. In the late 1990s and early 2000s, private energy firms collectively contributed more than USD100 million to the Republican Party, effectively shielding themselves against scrutiny and prosecution (Tillman, 2009). Also, energy trading firms made significant donations to politicians aiming to block regulations that would increase federal oversight in the energy trading market and change the treatment of executive stock options in financial reports. Ultimately, only a few executives faced criminal prosecution. It is not uncommon for large, powerful organisations to utilise political donations to lure politicians to their side. Such measures make it difficult for institutional rules to produce the desired outcomes. Therefore, with political support, the institutional environment remains criminogenic. The same mechanism is also observed at the organisational level, where failure to punish deviant behaviour results in continued deviant practices (Apel and Paternoster, 2009).

6.2.3 Socialisation and the normalisation of deviance

One of the reasons why corporate crime is persistent is the existence of poor organisational culture that normatively supports wrongdoing. Employees are incrementally orientated into norms that support defiance of both internal and regulatory (external) rules (Vaughan, 1999). Through socialisation, supported by a reward–punishment system, employees are influenced, via cognitive, psychological, and social network mechanisms to commit crimes for the organisation (Pinto *et al.*, 2008). Social contact between individuals in a system where misconduct is commonplace is likely to lead to the spread of criminal behaviour within the system, with the malpractice spreading to even members who initially viewed incompliant behaviours as unacceptable. While these illegitimate activities may enhance organisational productivity or efficiency, there is usually little or no consideration for ethical or legal norms, ultimately leading to negative consequences (Vaughan, 1998). Illegitimate practices are seen by the public as criminal or unethical, but to individuals who engage in corporate crime, the practices are provoked by conditions internalised and normalised by the corporate system.

Due to socialisation and the normalisation of deviance, decision makers (especially senior management or board members in an organisation) usually do not perceive their unlawful conduct as illegal or unethical; rather, they see their behaviour as fulfilling their obligations to shareholders and other stakeholders (Needleman and Needleman, 1979). For example, using the National Aeronautics and Space Administration's (NASA) Space Shuttle *Challenger* disaster of 1986, Vaughan (1998) demonstrated how individuals who deviate from organisational norms usually do not see their deviant behaviour as wrong, even if the behaviour may be perceived as criminal outside the system they operate in (Kramer, 2010). The *Challenger* disaster left seven astronauts dead, and investigations revealed that the disaster could have been avoided: technical failures had not been rectified for several years due to persistent shortcomings in NASA's decision-making processes. For Vaughan (1998), NASA leaders did not make a conscious decision to cause the disaster; rather, they made a sequence of decisions that were harmless on the surface, but which gradually led to the tragic outcome. Under institutional pressures, NASA incrementally normalised conditions that eventually become catastrophic (Linstead *et al.*, 2014). At the time, NASA was struggling with budgetary, political, and deadline pressures that compelled them to bypass some formal risk assessment processes (Kramer, 2010). NASA's *Challenger* disaster is a classic example of how the normalisation of deviance has the potential to promote and sustain unlawful behaviour in organisations.

The normalisation of deviance is pervasive in most organisations. Organisations and their employees tend to intrinsically deviate from standard procedures and policies. Though these deviations may not

generate adverse outcomes in the short term, they create conditions for such outcomes in the long term (Ramanujam and Goodman, 2003). Such deviations enabled NASA to launch the space shuttle early, but the deviation created conditions that ultimately led to the disaster (Vaughan, 1999). In the corporate world, examples of deviations from routine practices include deviating from accounting policies, overlooking quality control processes in the manufacturing sector, ignoring trading practices in the financial services industry, and disregarding procedures for administering medication in the healthcare industry (Ramanujam and Goodman, 2003). Potentially deviant practices are normalised mainly owing to business goals and objectives, strategic decisions, and cost-reduction programmes.

Vaughan (1999) analysed the Challenger case by applying the elements from a Mertonian organisational theory of misconduct. This theory suggested an interplay between elements such as: competition as a pressure factor to violate laws, internal infrastructure including rules, roles, structure and internal processes as an opportunity for misconduct, and poor governance and control with a systematic failure to deter non-compliant and illegal behaviour (Timmermans and Tavory, 2012, p. 174). This approach is grounded in previous studies and theoretical concepts culled in interactionism, Bourdieusian field theory, and neo-institutionalism (Timmermans and Tavory, 2012, p. 174).

Following the *Challenger* disaster, one would expect that NASA would learn from its mistakes and make the necessary corrections to avert similar disasters in the future. However, this was not the case, as NASA's normalisation of deviance became evident again in the 2003 *Columbia* disaster (Guthrie and Shayo, 2005). After the *Challenger* disaster, comprehensive recommendations were made to NASA to address its organisational shortcomings. It emerged in the investigations following the *Columbia* disaster that NASA did little to incorporate the recommendations: the disaster occurred due to foam shedding, a phenomenon NASA had observed in several previous launches (Hall, 2003). Since all previous occurrences of foam shedding had not led to any disaster, the organisation had come to accept the phenomenon as normal, even though it defied safety standards.

Logically, an organisation should undertake remedial measures if it discovers its internal factors facilitated deviant behaviour. However, as in the case of NASA, organisations may not always remedy deviance even when the deviance has led to a disaster, further reinforcing Vaughan's view that organisations will continue normalising deviance even if the deviance violates external norms. While the deviance conforms to internal norms, perpetrators of crime in an organisation will usually not view their deviance as criminal or unethical (Kramer, 2010), especially if they benefit from the deviance (Pinto *et al.*, 2008). Some scholars have attempted to explain this organisational behaviour, postulating that many organisations tend to adopt a no-blame attitude toward errors or disasters (Lupton and Warren, 2016). Organisations are even more likely to normalise and accept deviance if the deviance

endures for a long duration without generating adverse outcomes (Ramanujam and Goodman, 2003). Normalisation reduces the effect of the internal controls to deter deviance, illegal, and unethical activities. Organisational members who fail, or appear reluctant, to embrace internalised norms risk being branded disloyal. Fearing such stigmatisation, and given the value of membership loyalty to an organisation (Warren, 1992), employees often comply with all organisational rules and norms, whether they are criminal or not.

The argument that individuals in an organisation may often not view their deviant behaviour as criminal or unethical is especially intriguing. Vaughan (1999) asserted that purposive action may sometimes produce unanticipated suboptimal outcomes. To accomplish their goals, organisations design and implement formal strategies, processes, and policies to achieve organisational effectiveness and efficiency that may have unexpected (positive or unlawful/immoral) consequences (Vaughan, 1998). When Wells Fargo introduced the incentive compensation program, it is highly unlikely that decision makers envisioned the possibility of employees opening fake bank accounts. A compensation policy initiated, arguably in good faith, ended up compelling employees to engage further in illegal acts. This means that some corporate crimes occur through coincidence or chance. As Vaughan (1999) suggested, unexpected suboptimal outcomes are inevitable so long as socially organised systems remain in existence. Given the recurring nature of corporate crime, it is sensible to argue that organisational systems and processes are never perfect, whether by design or by default. According to Vaughan (1999), systems and processes introduced by an organisation to keep things on the right track have a negative impact, e.g. an organisation may introduce a centralised organisational structure to enhance coordination, but such a structure may hamper flexibility in decision making. In a situation requiring quick and unbureaucratic decision making, such as a crisis, centralisation may be detrimental, possibly compelling individuals to deviate from organisational rules and norms (Ramanujam and Goodman, 2003).

Cost-benefit analysis, as explained by rational choice theory (Vaughan, 1998), posits that decision makers in an organisation make a rational evaluation of costs and opportunities when making decisions (Kramer, 2010). Considering regulatory and competitive pressures, decision makers carefully weigh the associated costs and benefits of violating norms (Vaughan, 1998; Gobert and Punch, 2003). Since laws and regulations are designed to prohibit unlawful and unethical behaviour, decisions aimed at violating the laws and regulations are generally made based on a meticulous evaluation of costs against benefits. The implication is that business organisations are likely to commit crime if regulatory costs are not significant compared to the potential benefits, e.g. the late-1990s Californian energy crisis.

The competition for scarce resources also incentivises organisations to normalise crime or violate ethical norms (Vaughan, 1998). Whether profit-oriented or not, all organisations face the challenge of resource scarcity, and aggressiveness (often illegitimate) is considered critical for survival. For example, research institutions may fake data to win funding. Equally, governments may break rules to gain national or international influence. In the corporate world, business organisations may bribe politicians and other influential third parties to win tenders or bypass regulations. Ultimately, organisational members come to embrace such practices.

While organisations might be reluctant to discourage deviant behaviour that benefits them (Pinto *et al.*, 2008), they usually have policies and processes aimed at curbing deviant behaviour that adversely affects them. For example, most organisations have procedures in place to ensure transparency and accountability in the use of company funds to avoid, or minimise, corruption and the misappropriation of company funds, but may not hesitate to engage in similar questionable practices themselves, to their own benefit.

Besides the associated benefits to the organisation and competition for resources, there are other reasons why organisations normalise deviance. According to Pinto *et al.* (2008): though widespread, deviant, unethical or illegal behaviours are not always easy to detect. Even if the behaviours were detected, it would be difficult to dismiss the perpetrators, as their number may be too large; and even if the perpetrators were dismissed, a similar behavioural pattern would probably reoccur while criminogenic conditions remained. Organisations, therefore, tend to tolerate deviant behaviours, especially if they are beneficial to the organisation relative to the risks involved (Shover and Hochstetler, 2002).

6.2.4 Corrupt individuals within the corporate environment

Criminogenic power in organisations is cumulated and amplified by the social environment created by organisational members within many corporations (Heath, 2008, p. 610). The influence of individual intentionality and propensity to commit crime, therefore, may not be ignored. According to Linstead *et al.* (2014), the dark side of organisational behaviour exists because individuals have an innate dark side within themselves. Even though they may not consciously acknowledge it, individuals have an intrinsic potential for deviant behaviour. This is a particularly intriguing perspective to consider in understanding organisational crime. Conversely, Needleman and Needleman (1979) noted that exceptions to crime-coercive and crime-facilitative factors are not rare. Despite the pressure of organisational and environmental factors, there are individuals in the corporate environment who consciously do not engage in illegal or unethical acts.

For individuals with an inherent inclination toward deviant behaviour, however, the corporate environment acts as a catalyst for unlawful or unethical conduct (Gils *et al.*, 2015). Pinto *et al.* (2008) viewed corrupt organisations as entities that attract corrupt individuals, arguing that the organisational environment is merely a place where individual criminal behaviours are scaled up to the organisational level. Apel and Paternoster (2009) asserted that individuals tend to be attracted to environments that are characteristically compatible with their morality. Using the concept of moral disengagement, Moore (2008) added that individuals with a higher propensity to interpret unethical practices as less harmful are likely to engage in corruption once they are in a criminogenic environment. Further, the tendency to disengage morally increases if an individual is rewarded for committing deviations that benefit the organisation (Johnson and Buckley, 2015). Deviance, therefore, is an individual phenomenon, but interactions with other individuals in the organisational environment, as well as criminogenic elements, amplify the tendency.

Vaughan (1999) stated that the social and cultural context influences how individuals make choices, reason, and act. In a socially organised setting, Vaughan (1998) observed that individuals' behaviour is significantly shaped by organisational culture and social norms. The link between individual choice and the social context offers a more convincing account of criminogenesis in business organisations. As Nietzsche pointed out: "Madness is something rare in individuals—but in groups, parties, peoples, ages it is the rule" (Nietzsche, 1886/1983, p. 85).

6.3 The Micro-Meso-Macro Connection

My view on the origin of corporate crime has been strongly influenced by Diane Vaughan's Framework of Organisational Deviance (1999b; 2002b; 2007), which outline the micro, meso and macro factors, the relationship between them and how they contribute to organisational deviance. Her work has highlighted the importance of the micro-, meso-, macro-connection in understanding of the cause of unethical and illegal behaviour in organisations.

According to Vaughan (1999b; 2002b; 2007), organisational deviance is a complex phenomenon predicted by a combination of micro, meso, and macro factors. In others words, the choice to engage in unethical and illegal behaviour is shaped by not only individual cognition (micro), but also organisational (meso) and institutional (macro) forces. The influence of micro, meso, and macro factors on human behaviour and the social life in general has been demonstrated by several other scholars (Dillon, 2007; Dopfer *et al.*, 2004; Giddens, 1984; Kaklauskas *et al.*, 2011; Kwon *et al.*, 2016; Talib & Fitzgerald, 2016). Understanding how micro, meso and macro forces interact to cause organisational deviance has important implications for practice and policy with respect to addressing illegal and unethical behaviour in organisations.

6.3.1 The essence of micro, meso and macro factors

The first unit of analysis in understanding organisational deviance is the **macro** level. This level encompasses wider societal and institutional factors that shape the behaviour of individuals (Dopfer *et al.*, 2004). These include, but not limited to, national culture, social acceptance of corporate crime, laws and regulations, relationship between the state and corporation as well as political and economic forces (Dillon, 2007; Kwon *et al.*, 2016). From the perspective of organisational deviance, for example, competitive pressure may act as a compelling factor prompting managers to deliberately engage in criminal behaviour in an effort to achieve organisational goals and objectives (Vaughan, 1999b).

The **meso** level of analysis considers organisational factors that shape individual behaviour in one way or another (Dopfer *et al.*, 2004). Such factors embrace organisational culture, corporate processes, policies and practices (Kwon *et al.*, 2016) as well as professional networks (Vaughan, 2007).

The term '**micro**' basically denotes the individual (Dopfer *et al.*, 2004). The individual is the narrowest unit of analysis when it comes to examining the origin of organisational deviance. Organisational deviance literature suggests that individual cognition influences employee involvement in unethical and illegal behaviour (Vaughan, 2002). This view is supported by the amoral calculator model (Vaughan, 1998, p. 23), which asserts that individuals consciously weigh the costs and benefits of an unethical or illegal action prior to committing the action (Vaughan, 1999b).

6.3.2 The interaction between the three levels of analysis

To gain a broader understanding of organisational deviance, it is crucial to view micro, meso and macro factors in connection. There is agreement among scholars that the micro, the meso and the macro are closely intertwined (Dillon, 2007; Dopfer *et al.*, 2004; Giddens, 1984; Kaklauskas *et al.*, 2011; Kwon *et al.*, 2016; Talib & Fitzgerald, 2016). Social life in organisations and “human behaviour as situated action” (Vaughan, 2007, p. 4) can best be understood as a consequence of interconnection between micro-, meso-, and macro levels. This is earlier substantiated by Marxist view that the human essence is, in its reality, the ensemble of social condition and relations (Marx and Engels, 1845). It can be argued in the context of organisational deviance, unethical and illegal behaviour among individuals principally occur due to the influence of micro, meso and macro factors. Prevailing organisational and institutional forces, such as organisational values and beliefs, affect how decision makers in an organisation make judgments in the process of executing their duties and responsibilities. As Vaughan (2007) puts it, meso and macro factors affect action at the micro (individual) level. The interaction between micro, meso and macro forces perhaps explains why the origin of organisational deviance can often be a difficult phenomenon to comprehend.

The 1986 Space Shuttle *Challenger* disaster is an ideal example for understanding the micro-meso-macro connection with respect to organisational deviance. Vaughan (1999b, 2002b, 2007) has extensively demonstrated that the disaster was caused not by individual cognition alone, but by a social context that pushed managers at the National Aeronautics and Space Administration (NASA) to make choices that ultimately led to the disaster. For years, NASA managers were aware that there were technical problems with the shuttle’s solid rocket boosters (SRBs). However, due to organisational and political factors, the technical flaws came to be normalised, eventually causing the accident. In her analysis, Vaughan (2002) specifically illustrates how micro, meso and macro forces conspired to cause the disaster. At the micro level, NASA managers and engineers recommended that launching the shuttle was an acceptable risk even though the SRBs had recurring technical anomalies. Nonetheless, as Vaughan explains, such decisions were influenced by meso and macro factors. At the meso level, NASA’s culture of proceeding with shuttle launch in the face of technological uncertainty and beating set launch schedules gradually led to the normalisation of technical anomalies. The situation was further worsened by budget cuts and political pressure from Congress and the Executive – the macro level. Faced with budget cuts, NASA compromised the technical quality of the shuttle, prioritising schedule over safety. Individual cognition, organisational culture and institutional pressures culminated in a disaster that claimed the lives of seven people. The disaster is a classic

example of the relationship between micro, meso and macro forces as far as the origin of organisational deviance is concerned.

The interaction between the micro, meso and macro causes of organisational deviance is the reason some organisational deviance scholars have advocated for theoretical integration since the 1980s (Vaughan, 1999b). Efforts to merge micro, meso and macro analyses have been termed as the “integrationist movement” (Vaughan, 2007, p. 3). Theoretical integration involves considering connections between different theories. More particularly, theoretical integration in the context of unethical and illegal behaviour in organisations is concerned with determining linkages between individualistic and collectivist perspectives of organisational deviance (Vaughan, 2007). How the integration should be done remains a debatable matter but compared to isolated theories, theoretical integration offers a more comprehensive understanding of the origin of organisational deviance as it considers the connection between individual, organisational, and institutional forces.

Besides Vaughan, other scholars have also examined the origin of unethical and illegal behaviour from the perspective of the micro-meso-macro connection. The Micro-Macro Link, a collection of 15 essays edited by Alexander, Giesen, Munch, and Smelser in 1987, extensively pays attention to the micro-macro connection (Heckathorn, 1990; Huff, 1989). Raymond Boudon, (one of the authors in the collection) points out that any “phenomenon must be conceived to be the product of individual actions”; that the “actions are a function of the situation”; and that “the situation is a function of higher-level variables” (Huff, 1989; p. 456). In other words, individual action does not occur in a vacuum – it is shaped by factors beyond the control of the individual. Giddens’ (1984) theory of structuration is also closely related to Vaughan’s micro-meso-macro framework. At the core of Giddens’ theory is the argument that human behaviour can be best understood by analysing both the micro and the macro; not either of them alone. What Giddens means is that the individual and the society are closely interlinked. The two units are intertwined in the sense that an individual’s life or actions are shaped by social structures (Dillon, 2007). Similar to Vaughan’s micro-meso-macro framework, the perspectives of Alexander *et al.* (cited in Huff, 1989) and Giddens (1984) offer useful theoretical frameworks for understanding the complex phenomenon of organisational deviance.

6.3.3 Summary

The intertwinement between micro, meso and macro factors has important implications for how organisations address deviance. Traditionally, organisations deal with deviance by punishing the individuals involved in unethical or illegal behaviour. This approach stems from early scholarly perspectives on organisational deviance that viewed unethical and illegal behaviour in organisations as the result of individual actions (Vaughan, 1999b). Vaughan (1999b) sees this approach as flawed as

it ignores the broader (meso and macro) factors that cause individuals to be deviant in the first place. A more effective approach is one that considers the social context in which decision makers make choices. This view is rooted in the sociological perspective of organisational deviance, which, unlike cognitive theories of deviance, considers unethical and illegal behaviour as a social phenomenon (Vaughan, 2007).

Vaughan's micro-meso-macro framework helps to achieve a more comprehensive understanding of organisational deviance. The crux of the framework is that the isolated analysis of each level (micro, meso or macro analysis) is not sufficient to understand the origin of organisational deviance. Simply put, a fuller understanding of organisational deviance can only be achieved by holistically considering the three levels of analysis. The implication is that organisational deviance is a complex phenomenon that requires complex examination for it to be understood well. If organisations and policymakers are to effectively address organisational deviance and crime, they must merge all three level analyses. Rather than just focusing on the individual, businesses organisations and policymakers must acknowledge the role of organisational and institutional forces in fuelling corporate crime and organisational deviance in order to yield more positive outcomes in terms of deterring the ever pervasive problem of organisational deviance and crime.

6.4 Key takeaways from literature review

Traditionally, research on criminality in business organisations has focused on individual-level factors (Needleman and Needleman, 1979). However, not all criminal and unethical behaviour in organisations result from personal deviance: some illegal and unethical practices are often influenced by individuals' contact with criminogenic organisational systems, conditions, and structures, as well as external factors. Such criminogenic systems, structures, and factors have inherent traits and elements that induce or force individuals, who may otherwise not act unethically or illegally, to undertake unlawful and corrupt practices (Apel and Paternoster, 2009).

In a nutshell, the corporate environment and organisational settings play an influential role in individual decisions to engage in criminal and unethical behaviour. Individual deviance is usually a product of the social and cultural environment created within companies.

Organisational sociology and criminology literature extensively supports the view that criminal acts in business organisations also arise from organisational factors. These factors either compel individuals to engage in criminal behaviour or create conditions that facilitate illicit practices. Criminogenic antecedents that may shape criminal behaviour in organisations include organisational structure, culture, leadership, and competitive pressure. Other factors that may shape organisational deviance include incentive systems, industry characteristics, and the regulatory environment. Business organisations are not, *per se*, criminal, but criminogenic factors and processes make organisational crime a commonplace phenomenon. Companies will most likely condone malpractice if it advances their goals and objectives. Deviance and non-compliance that promote the interests of the organisation gradually become acceptable, with organisations even instituting reward mechanisms, institutionalising the deviance. As organisational members acclimatise to the corporate environment, they are socialised into viewing deviance as normal while it helps achieve organisational objectives. The organisational environment is so influential that it is difficult, but not impossible, for organisations to withstand criminogenic pressures and the endemic nature of organisational crime.

Addressing corporate crime has been extremely problematic for policymakers, regulators, law enforcement agencies, and business organisations themselves. Although eliminating corporate crime completely may not be possible, knowledge of the influence of criminogenic factors on members of a business organisation can lead to more effective interventions for deterring corporate crime. Addressing this problem is especially important given the negative consequences of corporate crime on organisations, individuals, and the society. Scandals, such as Enron or Wells Fargo, are constant reminders of the devastating consequences of organisational crime.

7 Discussion

7.1 Interpretation of the empirical data and discussion of the practical applications of the fraud triangle

The fraud cases summarised in Table 2, which form the basis of my empirical data, have provided a real-life context to my research and added strength to the validity of my findings. While applying the FT framework to the cases, I arrived at the conclusion that the FT model is mostly inadequate for the root-cause analysis of fraud occurrence and that it is an overly-ambitious claim from ACFE (2017) that the fraud triangle can be used as a foundation for fraud detection and prevention.

In Table 2 (column 7), I summed up the answers to the question of whether the full application of the FT could be used to analyse the cause of each individual case. The result reveals that the FT was **not** applicable in 15 out of 21 cases for scrutinising the origin of fraud and in the 6 remaining cases, the FT logic could only be **partially** utilized. In a nutshell, a **full application** of the FT framework **failed** in all 21 cases, which clearly challenges the theoretical underpinnings and practical relevance of the fraud triangle. The limitations of the fraud triangle, which I outlined in Table 2 (column 8) for each individual case, can be summarised below for each rubric of the fraud triangle as follows:

Pressure

- It is impossible to quantify or measure pressure since this descriptor of the FT model is undiagnosable for practitioners.
- The non-shareable financial pressure does not need to be either 'non-shareable' or 'financial' in order to lead to fraud.
- The element of 'pressure' in the FT model does not encompass crime-coercive corporate systems that compel their members to engage in illegal activities.

Rationalisation

- The rationalisation for committing fraud is a non-observable trait since it is impossible to know exactly what an individual may be thinking.
- Some offenders (e.g. pathological fraudster) do not need to rationalise or apply pressure, but actively look for opportunity.

Opportunity

- The FT concept considers 'opportunity' spotted and realised by an individual offender but ignores instances where opportunity to commit fraud was deliberately engineered in collective

effort (co-offending). This means that the instances when individuals pool their expertise to commit fraud are fully ignored by the FT model.

- 'Opportunity' does not address management overrides of existing controls, misuse of managerial position, and the fact that the managers have an opportunity *per se* to commit fraud due to their executive position.

All in all, the ACFE claim that fraud triangle is a useful practitioner framework for combatting fraud is not defensible, since there are a number of key limitations to the fraud triangle concept (Lokanan, 2015).

For me, it was challenging to employ the reasoning of the fraud triangle model to explain the cause of fraudulent activities. It appears practically impossible to piece the three descriptors of the fraud triangle together to get to the bottom of the root-cause. The practical limitations of the framework are grounded in the fact that the fraud triangle model:

- Cannot explain all occurrences of fraud;
- Considers fraud to be an individual problem and focuses predominantly on deviant individuals;
- Provides individualistic explanations on the causes of fraudulent behaviour;
- sees individuals acting alone for financial gain and ignores group dynamics, and the effect of wider societal influences;
- Provides a one dimensional psychological analysis of the perpetrator;
- Does not explain collective fraud (co-offending) or crime by obedience (innocent fraud/ bystander fraud);
- Does not distinguish characteristics for exposing the predatory offender (pathological fraudster), who actively looks for the opportunity, is better organised, has better concealment schemes, is better at interacting with auditors and does not need to rationalise or to experience pressure; and
- Does not fully capture the full range of criminogenic antecedents of fraud and ignores group dynamics, influence of corporate culture, organisational factors, and institutional forces nurturing illegal and unethical behaviour.

Having said that, the three elements of the fraud triangle may provide some insight in understanding specific fraud cases as to why a situational fraudster might decide to offend in particular situations (Lokanan, 2015). However, it requires the practitioner to possess the true knowledge (rather an assumption or a vague notion) about two non-observable descriptors ('pressure' and 'rationalisation')

and if they have effectively influenced an individual to engage in fraud. 5 out of 21 fraud case cases, where the FT logic could be **partially** applied (see 7th column in table 2), confirm this claim.

Lokanan, 2015 (p. 214) suggests the fraud triangle “pigeonholes fraud” in the realm of potential fraudulent activities, since it predominantly explains occupational fraud committed by one individual. Huber (2017) points out that the fraud triangle grounded in Cressey’s research (1953) has less to do with fraud. The title of Cressey’s (1953) work is self-explanatory from the outset: “Other people’s money: A study in the social psychology of embezzlement”, and it does not refer to “the social psychology of fraud” (Huber, 2017, p. 31). Therefore, an ‘embezzlement triangle’ referring only to theft as a form of breach of trust cannot explain the range of corporate or financial fraud types.

Furthermore, the simplistic conceptualisation of the fraud triangle focusing on opportunity, rationalisation, and pressure is largely incompatible with the macro-meso-micro view of criminogenesis. The geometry of fraud theory cannot absorb and decode the multifaceted and multi-layered phenomenon of fraud. It is incumbent on the anti-fraud community to apply a model endorsing the criteria regarding collective offending in the organisational context. Several fraud cases under review (e.g. cases 1, 2, 7, 8 in Table 2) revealed that in case of collective fraud, offending cannot be attributed to any single employee, but rather to structural features and social forces influencing fraudulent activities. Despite of a number of limitations, the fraud triangle is used extensively by fraud investigators and auditors and it is the most obvious framework in practice when examining criminal behaviour in businesses. The concept of the fraud triangle emphasises internal control, perceived pressure and ability to rationalise illegal activities. The significant translation trajectories emerging from this focus are the assertion of suspicion and promotion of organisational surveillance (Morales *et.al*, 2014). While there are arguments to suggest that the fraud triangle is incomplete, it nonetheless remains a tool which is in current use.

Criminal conduct through the lens of the fraud triangle is always a possibility and therefore, a healthy portion of scepticism should be cultivated while considering the perspective for illegal activities. However, the fact is, that the nature and origin of illegal behaviour in the organisational context is much more complex than the explanation offered by the fraud triangle model.

The fraud triangle model explains fraud through weaknesses in controls, subjectively perceived feelings such as pressure, and individual capabilities to justify illegal acts. The lens of the fraud triangle, with its emphasis on control and personality, provide anti-fraud professionals with a myopic vision of effective anti-fraud solutions. The triangle dismisses any criminological views analysing criminal

conduct from sociological or cultural perspectives, and does not consider the organisational settings, social interrelations and surrounding network of employees.

The deficiencies of conventional anti-fraud actions arising from the application of the fraud triangle model can be summarised as follows:

- The FT fails to address the larger structural, cultural, and organisational forces that shape behaviour and decision-making process in the workplace.
- The FT ignores criminogenic conditions and social forces that lead to the normalisations and acceptance of deviant behaviour and misconduct.
- The FT restricts the effect of anti-fraud policies and strategies by focusing on individuals (micro-view) and neglects to holistically address criminogenesis at the micro-, meso- and macro-levels to successfully prevent illegal activities.

7.2 Macro-level

7.2.1 Criminogenic macro-factors in the business environment facilitating corporate crime

There are various criminogenic macro-factors that facilitate the occurrence of corporate crime in the business environment. One of these factors is the existence of a poor legal framework to govern corporations and to check the state-corporate relationship. A poor framework has loopholes that corporations can exploit for their own benefit. While there is an established legal framework comprising of judicial systems and law enforcement authorities to prevent or tackle corporate crime, the major challenge lies in the nature of the laws that enforcement authorities can use. There are gaps in various regulations and legislation on corporate crime, and corporations can identify these gaps and exploit them to ensure that their socially harmful actions are 'lawful' without being restrained by the legal system. It is the existence of such gaps in legal frameworks that leads to the next facilitative factor for corporate crime, namely inadequate market regulation. The regulations that various markets provide for monitoring, supervising, and controlling corporate actions are inadequate in the sense that they do not provide a solid legal basis upon which corporations can face criminal charges.

Two cases of money laundering outlined in Table 2 (cases 1 and 2) revealed criminogenesis at the macro-level, such as poor enforcement of legal regulations to prevent international money laundering schemes, symbiotic state-bank relationships, as well as political and legislative conditions supporting businesses. The regulatory framework stipulated in the circular letter 6/2005 from the German financial supervisory authority (BaFin) on the adherence to the anti-money laundering law (AML law) requires the banks to devise their internal AML actions based on a risk-based approach developed by the banks themselves. In doing so, the banks referred to the BaFin regulatory framework to deliberately come up with the internal risk assessment suggesting the existence of a low risk of money laundering in the business. In this way, the banks formed the justification for the BaFin to have a small number of actions to mitigate the low risk, which was internally identified. For the banks in questions (case 1 and 2 in Table 2), the BaFin had never enforced its formal prerogative to validate the internal assessment of the financial institution. This circumstance allowed the banks to bend and interpret the AML regulatory requirements according to their needs and interests. Thus, the legal framework, as well as the inadequacy in enforcement of regulations were facilitative factors for illegal conduct of the businesses.

The further criminogenic factor in these two cases arose from the symbiotic relationship between the state and the banks since their relationship introduced a conflict of interest to the government and its agencies responsible for law enforcement. The two banks involved in the money laundering cases belonged to a group of state-owned banks in Germany (the so called 'Landesbanken'), which comprise

one of the main pillars of Germany's banking system and a distinctive type of banks unique to Germany. It was remarkable to observe that those two publicly owned financial institutions could escape the rigorous control and monitoring of the German financial supervisory authority over a long period of time (cases 1 and 2 in Table 2).

Another facilitative aspect is the combination of shareholder expectations and the pressure to enhance sales while reducing production margins. The doctrine of shareholder primacy plays a key role because it places profitability as the priority, giving occasion to the commitment of criminal activities or contributing to the rise of an efficient corporation with inefficient social impacts. In an attempt to please shareholders and to retain competitive advantage, corporate leaders seek to increase sales and reduce expenditures and may engage in illegal activities. The primacy of the shareholder places managers in a difficult position and gives them room to act in an illegal manner.

In various industries, the market is becoming increasingly competitive, meaning that profitability is not a guarantee. As competitors continue amassing wealth in such an environment, many corporations find themselves under intense pressure to stay afloat. Consequently, corporations try to keep up by inventing new practices, namely cutting costs and exploiting new markets by engaging in activities that may either be legal or illegal. Market uncertainties and fluctuations intensify the pressure to stay afloat among corporations. For instance, economic uncertainties in particular countries may lead many corporations to pursue global strategies and invest in new countries and, in the process, find themselves interfering with some international trade regulations or the laws of the new country. Changes in various sectors of the economy and in particular industries also contribute to the uncertainty and the recurrence of fluctuating business environments. As a result, many companies find themselves engaging in illegal activities to keep up with the prevailing circumstances.

Following on from the above mentioned criminogenic elements, I will deepen my discussion further as to how the occurrence of corporate crime is facilitated by macro-factors such as symbiotic, interdependent and complex relationships between the state and corporations, structural irresponsibility of the corporation, poor state regulations and regulatory frameworks, and political and legislative conditions primarily supporting business interests.

7.2.1.1 Symbiotic relationships between the state and the corporation

The corporation becomes a powerful means of balancing the progress of a nation's economy with the social welfare demands of the population (Tombs & Whyte, 2015). The government is the body that facilitates the functioning of the corporation in distributing goods and services while promoting the social welfare of its citizens. It achieves this enabling function by providing basic law enforcement, instituting court adjudication systems, and providing the relevant regulatory framework without which the corporation may not survive (Whyte, 2016). Consequently, the corporation needs the government since the latter establishes the rules, regulations, and policies governing its operations. At the same time, the government needs the corporation through which it can ensure that the citizens of the country receive the goods and services they require. Thus, there is a symbiotic relationship between governments and corporations (Tombs, 2012). The symbiosis arises from the fact that the government depends on corporations to ensure that members of the public have the resources they demand for their daily living, whereas the corporations need the government to ensure a suitable operating environment for them to achieve their goals and remain profitable.

Nevertheless, this symbiosis can also have negative results. States have established corporations in a model that enables them to mobilise, utilise, and protect capital. After establishing the corporations, the state then creates supporting market conditions and establishes a regulatory framework that the corporations can operate within. Many corporations thus formed, or created by private owners, carry out corporate crimes which fly above or below the radar (Tombs & Whyte, 2015). The typical below-the-radar corporate crimes may include fraudulent activities such as food fraud by hospitality corporations, mis-selling of products to consumers by corporations operating in the financial sector, or environmental pollution through commercial activities (Lord *et al.*, 2017; Tombs & Whyte, 2015). The state does little to curb such corporate crimes since it also uses corporations to propagate some actions that may not be desirable in the eyes of the public. For instance, the state inexplicably allows corporations not only to produce arms for defence purposes but also selling weapons to parties at war (e.g. UK arms-producing companies profiting from war are Rolls-Royce and BAE Systems). It is highly unlikely that the government, after taxing businesses' income, can make arms-producing companies responsible for war profiteering. The state, therefore, benefits from such above-the-radar crimes that the corporate commits and does little to protect the public from the below-the-radar crimes owing to its dependence on the corporation (Tombs & Whyte, 2015). The corporation, on the other hand, depends on the state to create an enabling environment for it to operate, with the activities sometimes involving below-the-radar crime. The two bodies, consequently, benefit from each other's existence in a symbiotic manner.

The symbiotic relationship between the state and the corporation, where each party benefiting from the other, indicates a strong interdependency. The state traditionally seeks to ensure economic growth and the availability of resources to members of the general public. However, in many cases, the state might not have adequate means to achieve this resource allocation, distribution, and economic development, making it rely on corporations to advance its economic interests (Tombs & Whyte, 2015). Corporations, in contrast, require a suitable environment in which they can ply their trade and achieve profitability, depending on the state for the provision of a good environment and favourable state regulations and regulatory framework for business transactions. With the kind of ownership that uses liquid shares, corporations usually have capital available for investment in various ventures that can be profitable to the government in its achievement of the economic purposes and service provision. Consequently, the state and the corporation are mutually dependent.

An example of potential interest of conflict arises, should the legislations find a corporation guilty of criminal activity and task the law enforcement authorities to hand out the punishment, it is highly likely that the conflict of interest on the part of the government would reduce the severity of the punishment due to their symbiotic relationship. Alternatively, it is possible for a compromised law enforcement agency to conduct shoddy investigations into corporate crime or tamper with evidence, thus making the case against the corporation frail. Weak law enforcement then becomes an impediment to the justice system and facilitates corporate crime. Furthermore, the presence of corrupt key market players is the next major facilitative factor for corporate crime. These players provide an avenue for corporations that commit criminal activities to avoid being investigated, getting charged, facing the legal process, or serving their sentence given after judicial rulings. By colluding or cooperating with these players, other business organisations find a safety net to avoid criminal liability for their actions.

Moreover, corporations typically have a relatively higher bargaining power than the state due to their financial muscle and the fact that the state views corporations as essential parties in the economy (Tombs & Whyte, 2015). The roles that businesses play in the economy include employment creation, technological innovations and advancement, provision of health services and equipment, sponsoring of sports events, and the support of educational functions (Izarali, 2016). This relatively high bargaining power places corporations in the advantageous position of influencing the decisions that that states make. Corporations, furthermore, are important stakeholders in the formulation of various policies and regulations that affect the sectors of the economy in which they operate.

In this sense, the symbiotic nature of the relationship between the state and the corporation becomes criminogenic because the state needs the corporation to achieve its economic goals and strategies, whereas the corporation needs the state to create an enabling environment for it to achieve its

objective of profitability (Tombs, 2012). According to Sen (2015), the state views the corporation as a critical element in its agenda for economic growth, hence the development of regulations that support the existence of corporate entities. For instance, through the expertise, capital, and the business transactions of the corporation, the state provides an important element of public service to its citizens. A good example is the state's use of corporations that provide transport services to meet its citizens' demands for efficient public transport and the carriage of goods to various destinations. The corporation, on the other hand, calls for the support of the state in the establishment of a facilitating environment for free markets, ease of trading, taxes, and credit systems. Also, the corporations depend on the government for the provision of a peaceful political climate and a safe haven for both domestic and foreign investments (Sen, 2015). Therefore, the interdependent relationship between the state and the corporation arises from the very formation of corporations.

The state regulates the formation of the corporation before providing it with the environment in which it can thrive. Bernat & Whyte (2015) elaborate on the process of constructing corporations. From their analysis, the authors argue that corporations are established as formal institutions that have specific political and legal status. As limited entities, the corporations create structures that allow them to operate as bodies that are independent of their owners. The corporation's status enables it to attract investments by providing incentives to shareholders and the corporation can also make investments on its own (Bernat & Whyte, 2017). The state, through the process of incorporation, registers the corporation to operate as a legal entity with a commercial purpose including the ownership of property and the exploitation of the limited liability privilege. Therefore, the state constructs corporations in a form that can generate capital, utilise it effectively for profit, and protect it from theft or other unwanted activities. At the same time, the state is responsible for the creation and facilitation of various markets including capital markets, commodity markets, property markets, and commercial markets, all of which constitute avenues for generating, utilising, and protecting capital (Bernat & Whyte, 2017).

7.2.1.2 Complexity of state-corporate relationships

State-corporate relationships are not only symbiotic but also highly dynamic and complex. Velde (2010) supports this notion by highlighting how difficult it is to deduce the nature of such relations by direct observation. Owing to the complexity of the relationship, a good understanding requires the use of various factors to comprehend the extent to which the corporation and the state interact and correlate. Some of the factors include the fora in which representatives from both parties interact with each other. Further complexities are introduced by the fact that the relationship can either be collaborative or collusive. Collaborative relationships help the state and the corporation to achieve common goals including profitability and capital accumulation, whereas the collusive relationships might have harmful outcomes such as committing corporate crime supported by the state (Velde, 2010).

The state-corporate relationship is multifaceted because it depends largely on the political climate of the country. The political climate of a country is never a constant, and with the changes that it undergoes, affects the nature of the relationship and interaction between the ruling government and the private sector. The different ideologies that politicians represent, who also have a say in the governance of the country and the business environment, affect the nature of the state-corporate relationship (Sen, 2015). For instance, there are politicians who have a capitalistic mind-set that can be highly favourable to the advancement of the capital accumulation goals of the state, which provide corporations with a suitable environment to thrive in achieving their profitability goals. On the other hand, some politicians have ideologies that lean more towards socialism and communism, which would undermine the pursuit of profits and capital accumulation by corporations and the state government. This dynamic environment affirms Tombs & Whyte's (2015) assertion that the relationship between the state and the corporation is complex and very variable. As the leadership of the country changes and politicians with diverse ideologies take the mantle, the context of the state-corporate relationship also changes. As a result, the relationship transforms as the political and social environment changes.

A further proof of the complexity of the state-corporate relationship was seen during the global financial crisis in the year 2008. During the financial crisis, there were several corporations that collapsed or were on the verge of collapse after the financial downturn that the world experienced. Such corporations were the ones termed as 'vulnerable corporations' (Tombs & Whyte, 2015). In response to the plight of many such vulnerable businesses, several governments took drastic steps to rescue them from collapsing in the wake of the financial crisis by apportioning huge amounts of taxpayers' money to bail out vulnerable corporations with the approval of 'supra-national'

organisations (Johnston *et al.*, 2010 p. 208). The governments which set up such huge funds for bailouts or underwrote the savings that depositors had made in various banks, did so with the aim of avoiding an economic decline or the destruction of their economic value (Johnston *et al.*, 2010). In a sense, the governments were protecting both the interests of the corporations and their own economic interests. Their actions give weight to the argument that state-corporate relationships are interdependent and complex in nature, with each body doing its best to protect the interests of the other. The financial crisis in 2008 revealed the negative side of intertwined and interdependent relationships between states and corporations. Some bankrupt enterprises had to be financially rescued through government interventions, since they were 'system-relevant' and it was too risky to let them fail, which was beyond what most tax-payers found acceptable (Bystrova & Gottschalk, 2015).

In addition, the state-corporate relationship's complex nature is evidenced by what Tombs & Whyte (2015) explain as the transfer of public functions to the private sector. Indeed, the state uses the resources and infrastructure that the corporation owns to meet the needs of the general public, which is a positive feature of the state-corporate relationship. However, over the past few years, many governments have been transferring public functions to the private sector through privatisation efforts (Tombs, 2012). As early as the 1980s and 1990s, the states in many parts of the world started transferring functions such as electrical utilities, prisons management, construction and maintenance of railroads and other transport infrastructure, and education among others to private entities (Goodman & Loveman, 1991). Some of the aims of such privatisation efforts included an enhancement of the efficiency with which the functions are performed, a reduction in the interventions of the government in some functions, an improvement of the revenue accrued from the services, and an enhanced competitiveness in the sectors involved (Estrin & Pelletier, 2018, p. 66). The relocation of public functions did not stop in the 1990s, with developing countries also adopting the approach by privatising many services that the state previously offered to the public. The revenues from such privatisation efforts peaked in the year 2008 and remained above US\$200 billion as of 2015 (Estrin & Pelletier, 2018). The trends show how privatisation has been on the rise since the 1980s. Following these efforts, the state-corporate relationship has even grown more complex and this trend continues as more public functions are transferred.

7.2.1.3 Structural irresponsibility of the corporation

Structural irresponsibility of the corporation is the phenomenon that arises from the nature of the ownership of corporations through shares (Brockman, 2016). Accordingly, the capitalistic nature of businesses is evident through the separation of the ownership from the management, with the owners having shares that can be traded at will, transferring ownership from one hand to another. Such transactions 'depersonalise' the ownership as the owners are only concerned about the financial aspects of the company, dissociating themselves from a commitment to the corporation. The owners, referred to as shareholders, actively participate in the corporation's profits, but have no feeling of responsibility for the harms or crimes that the organisation propagates to maintain its profitability (Brockman, 2016).

Mitchell (2001), while referring to the modern business corporation in the context of the USA, describes the limited liability format as well as the liquid shares as an encouragement for millions of individuals to invest their money in corporations without worrying about the daily running of the companies that have invested in. The management concentrates on identifying projects and innovative ways that will ensure the business stays profitable, sometimes through risky endeavours. Consequently, the owner is detached from the corporation, with the structure allowing the corporation, as a legal person, to bear responsibility for its actions.

This phenomenon creates a sense of irresponsibility on the part of the shareholders, with the management of the organisation that concerned with the daily operations of the corporation. When problems arise, shareholders find comfort in blaming the management for the woes or corporate crimes, whereas the management defends itself by claiming that their actions are in the best interests of the organisation - making profits. Therefore, this state of irresponsible and impersonal ownership of corporations and the management's focus on their profitability is referred to as a 'form of structural irresponsibility' of the corporation (Brockman, 2016, p. 740). It contributes to the possibility that businesses can engage in illegal or socially acceptable (but illegal) activities without the owners being liable for the conduct of the corporations that they have invested in. Tench *et al.* (2012, p. 9) term this as 'corporate social irresponsibility'. While the engagement in socially unacceptable actions can dent the success of a corporation, the owners bear no responsibility in the problems since they can simply trade their shares to other parties to rescind their ownership of the corporation, further contributing to the structural irresponsibility of such corporations.

7.2.1.4 Poor state regulations and regulatory framework

One of the progenitors of corporate crime is weak state regulations and a poor regulatory framework, coupled with the lack of government influence on the business sector (Bystrova & Gottschalk, 2015). Regulations, which are supposed to be protective of the members of the public and the environment from criminal activities, do not always achieve their purpose (Lord & Broad, 2018). Bernat & Whyte (2017) put forward reasons for the failure of regulations to tame corporate crime. The authors suggest that, contrary to the common belief that the state and the corporation have an antagonism in terms of their interests, the two bodies actually have mutual interests and shared objectives in their operations. In this context, why should the lawmakers impose the strict regulations which could hinder the interest of the corporations and potentially the interests of the state? Corporate crimes, therefore, could result from the sharing of mutual goals between the corporation and the state.

Furthermore, there are some criminal activities that the state initiates of its own accord while using corporations or infrastructure owned by corporations (Tombs & Whyte, 2015). Institutions and parastatals that are owned and run by the state initiate programs that facilitate corporate crimes (Bernat & Whyte, 2017). In such instances, the regulations that the state develops and enforces cannot be effective in controlling the activities of the private sector, to which the corporation belongs. In such an environment, where regulations cannot quell corporate crimes, the same regulations exist to uphold the status quo, only partial protecting the members of the public from corporate offences (Bernat & Whyte, 2017).

Many governments are increasingly enacting laws and regulations that ensure corporate criminal liability, while putting in place programs that seek to ensure compliance with regulations. However, the existence of such stringent regulations does not negate the fact that some state regulations support and promote the interests of the corporations rather than those of the members of the public (Lord & Broad, 2018). For instance, despite the existence of various regulations on the use of taxpayers' funds, there are governments which have disregarded the regulations and proceeded to use such funds in perpetuating economic crime by bailing out corporations which are faced with the threat of becoming insolvent (Johnston *et al.*, 2010). It shows that regulations do not always effectively protect taxpayers from corporate and economic crimes.

State regulations promote corporate interests, but also can contribute crime, and harm. The reason for this is the capitalistic nature of governments that creates the social environment that allows the harmful actions to thrive (Bernat & Whyte, 2017). The capitalistic nature of many governments around the world means that they have the aim of accumulating capital for the public coffers, to enable them to run their nations. Since corporations are the institutions that are actively involved in the generation

and creation of wealth, the capitalistic governments use them in their efforts to realise their capital requirements. Therefore, to facilitate the operations of the corporations that will assist them in achieving the capital accumulation goals, governments create the regulatory and administrative frameworks that enable the private sector to flourish (Bernat & Whyte, 2017). The state creates regulations to govern human capital, to create labour markets, establish employment laws and contracts, to govern the establishment and ownership of corporations, and specify torts and corporate liability rules (Tombs & Whyte, 2015). These regulations are generally supportive of the aims of the state, which the corporations also share: capital accumulation. Thus, the state creates an atmosphere that supports the interests of the corporation, which revolve around profitability and the accumulation of capital. In this sense, the regulations do little to protect the public from harmful activities and corporate crimes that can arise from state-corporate relations, since it could negatively impact these relations.

At the same time, business interests highly affect the regulatory environment. Corporations have strong ties to the government and its various agencies and continue to use these ties to exert pressure on the state to enact legislation that favours companies (Frynas & Stephens, 2015). As a result, a regulatory framework is required that curtail the power that corporations have and their influence on the government. The political conditions in a country and the business interests both have a profound influence on the regulatory framework used to govern corporations.

In summary, state regulations and regulatory frameworks are criminogenic in their nature if they help maintain the current state of affairs by promoting state-corporation interests of capital accumulation, and assist in advancing the interests of corporations, thereby creating opportunities for corporate crime to occur.

7.2.1.5 Political and legislative conditions supporting business interests

The political environment in any nation is variable, and mostly unpredictable. Business organisations may have political ties depending on the individuals in the government at any particular time, and the ties could be as unpredictable as the political environment itself. Further, there is a range of political conditions that form the basis for corporate regulations which are supportive for business interests. Some of those conditions are regulations promoting the lack of business accountability, the limited liability concept, the separation between the management from the ownership, profit-oriented directors' duties, the shareholder primacy principle, the individualistic nature of English criminal law, and the structurally irresponsible corporation.

With the development of 'regulatory states', there have been calls for fostering accountability (Lodge, 2001). There are debates surrounding **the lack of business accountability** among various state-corporate associations, with the regulatory environment being brought to question. Tombs & Whyte (2015) elaborate that the state regulations that govern the corporation have many gaps that the latter can exploit to commit social harm and corporate crime. The regulations which set up corporations as bodies that are independent of their owners, contain gaps that these organisations' managers can exploit in the quest for profitability. An exploitation of such regulatory gaps means that the corporation and its management cannot be held legally liable for committing acts that may result in social harm or corporate crime (Tombs & Whyte, 2015). Thus, the lack of accountability among corporations arises. At the same time, the existence of exploitable gaps in the regulations shows that regulations are simply inadequate to oversee the conduct of business organisations. There are increasing calls for more stringent legal regulations to govern corporations, improve their accountability to all stakeholders, and prevent them from exploiting laws while serving their business interests.

Lack of business accountability is strongly supported by **the concept of limited liability**, which provides the foundation for corporations. From a legal standpoint, the corporation is considered to be a separate person from the owners, who are only liable to the extent of their capital investments in the organisations (Bernat & Whyte, 2017). As a separate entity, therefore, the corporation can 'act' in a manner that would help it to meet its strategic objectives and the goal of profitability. The managers of the corporation are tasked with ensuring the achievement of the goals and objectives (Mitchell, 2001). However, in cases where the corporation contravenes social, ethical, or legal requirements, it is treated as a single entity, with the owners bearing no responsibility for its actions. Consequently, this limited legal liability is one of the principles of the law that the owners of a corporation or its managers can misuse to commit social harm and perpetuate corporate crime. It allows the corporation

to serve its business interests without the owners being responsible for the actions, thereby calling for more regulation of businesses.

The limited liability doctrine that is used to set up a corporation further introduces a **separation between the managers of a company and its owners**. The managers are tasked with the running of the daily operations of the firm (Mitchell, 2001), whereas the owners have shares that they can trade at will, considering the financial aspects of the corporation (Brockman, 2016). While managers can be held liable for any legal violations that they commit as part of the corporation, the owners cannot be held responsible for the actions of the corporation. Yet, in most cases, the managers are not held accountable for the actions of the organisation since they are treated as part of the corporation (Tombs & Whyte, 2015). In this sense, the divide between the owners who have shares in the corporation and the managers who run the corporation provides a protective basis for the corporation, the management and owners of the businesses. In this vein, the irresponsible corporation arises from the structure that dissociates the owners from the activities of the organisations with the managers tasked to ensure profitability. The owners' impersonal association with the corporation separates them from any faults and crimes that the organisation commits (Brockman, 2016). The irresponsibility also arises from the managers committing harmful and criminal actions that they would not otherwise commit if they were to act for themselves (Armstrong & Green, 2012).

The **legal duties of the directors have a profit-oriented nature** as the directors of corporations are legally expected to further the shareholders' ambitions for a return on investments by engaging in activities that would ensure the success of the company. From a legal perspective, directors are agents of the corporation, appointed by the shareholders to run the business and its affairs with the ultimate goal of ensuring the shareholders' benefit from their investments. Directors serve as the senior decision-making personnel in the corporation with the duty is to serve the best interests of the corporation and advance the success of the company.

Shareholder primacy is the principle in corporate governance that assigns the interests of the shareholders the first priority in all corporate decisions, superseding the interests of all the other stakeholders of the specific corporations. Legal, business, and academic communities embrace the principle as an integral aspect of corporate governance. Economists and policymakers believe that the shareholder primacy principle requires managers to maximize the wealth and investments that shareholders have made in the corporation (Rhee, 2018). This maximization of wealth might often work through the achievement of short-term profits in order to meet shareholders' demands, which advances opportunistic thinking in the business world.

English criminal law treats the corporation, along with its managers and directors, as a single entity that can operate on its own (Tombs & Whyte, 2015). This legal perspective paints the picture that **the corporation, as an entity, is answerable to any criminal charges levied against it.** However, it is people that make decisions on behalf of the corporation, and they also sanction any criminal actions that the corporation commits. The law's regard of the corporation as a legal person gives room for managers to commit harmful and criminal activities on behalf of the corporation that they would otherwise avoid if they were to act as individuals (Armstrong & Green, 2012). English criminal law largely ignores the actions of the individual agents of the corporation (managers and employees) and places all the criminal liability on the company.

The corporation, as outlined above, have owners that trade companies' shares and have no personal association with the business. This separation of the owners from the corporations is what scholars describe as '**depersonalisation**', i.e. where owners lack of any commitment to the company (Brockman, 2016, p. 740). The corporation is a separate legal 'person' that can act on its own and it is viewed as an artificial person that can be answerable for corporate crimes, which it often pays for through fines or sanctions (Tombs & Whyte, 2015). The people who make decisions for the corporation – directors, managers, or employees – can however only be held responsible for criminal acts if their action 'does not benefit the corporation' (Tombs & Whyte, 2015). Consequently, the corporation is considered as an artificial body that could make its own decisions. As a result, this structural arrangement of the corporation allows the owner and agents of the corporation not to be held criminally liable for companies' harmful and criminal activities (Brockman, 2016).

7.2.2 Criminogenic industries

Criminogenic industries both reflect and shape the business environment in which companies operate. The businesses might be both forced as well as induced into criminal activity and unethical behaviour. Needleman and Needleman (1979) suggest therefore to differentiate between crime-coercive and crime-facilitative systems where the companies operate as system members. Accordingly, the former system is equipped with structural conditions that compel companies to commit illegal acts, and the latter has structural conditions that instead encourage the system members to engage in illegal acts (Needleman and Needleman, 1979 p. 518.).

Farberman (1975) analyses the example of crime-coercive system based on the conditions he found in the US car industry in the 1970s. Accordingly, the car market displayed the features of the crime-coercive system by compelling car dealers into a kick-back payment scheme. Those car dealers who resist following the criminal route and resisted breaking the law were subject to retaliation in the form of late deliveries from manufacturers, or even termination of their franchises (Needleman and Needleman, 1979). These conditions were possible since the market power was highly concentrated in a few car manufacturer that could dictate the rules of the market. In this sense, car dealers had little control over market conditions, and so were forced into unethical or criminal behaviour which was result of “conditioned” crime (Leonard and Weber, 1970, p. 415-416).

With regards to investment banking and stock trading, it can be said that this market also displays features of a crime-coercive system. For instance, it is not unusual that traders manage a profitable but a very volatile book of derivative securities (Buell, 2016) and they are constantly under pressure to generate more income for their companies (Cassel and Bernstein, 2007 p. 229). It is conceivable that some traders might bow the pressure and apply deceptive practices such as stock price manipulation, releasing deliberately incorrect information, or closing illegal deals with other traders to encourage the sales of more stocks or bonds. In such an environment with very intense competition, illegal activities could become necessary for individuals for “professional survival” (Cassel and Bernstein, 2007 p. 229).

In this respect, Buell (2016) highlighted the fraud case at J.P. Morgan which in occurred in 2012 and which demonstrates criminogenic nature of derivate trading sector. At this time, the market for derivative products collapsed but the traders at J.P. Morgan did not reduce the market value of securities quantity that they held in their portfolio. Instead of notifying shareholders and the public about dropping the value of their books in a timely manner, senior managers at J.P. Morgan decided to deceive the investors and to release incorrect information about the true value of J.P. Morgan’s

trading portfolio. Revealing the true picture would have resulted in a nearly US\$1 billion reduction in J.P. Morgan earnings result (Buell, 2016). Remarkably, dissemination of the false information to the shareholders was known to several employees of the bank but the message from senior managers to employees was clear: either you are with us, or against us.

On the contrary to the crime-coercive system, the crime-facilitative systems do not force the system members to break the law, but rather present very attractive structural conditions that encourage and facilitate crime (Needleman and Needleman, 1979).

In my discussion on economic crime and money laundering techniques in the securities market, I argued that the banking and securities trading market harbours some conditions that facilitate criminal activities (Glebovskiy, 2005). There are a number of crime-facilitating factors in the banking sector that make the security market attractive for money laundering. Securities trading is known to be riddled with white collar crime (Needleman and Needleman, 1979; De Haldevang, 2017). “Despite the magnitude of criminal activity in the securities market, the financial community has seemed reluctant to protect itself” (Needleman and Needleman, 1979, p. 520). Even though potential money laundering with derivatives is prominent to the European regulators (e.g. BaFin in Germany) and to financial institutions, there is a lack of rigorous control and monitoring of transactions in security trading (Glebovskiy, 2005). Consequently, the gaps in the regulatory framework for derivatives trading is another factor that invites criminals to misuse the financial sector. For effective money laundering prevention, the legislation and regulatory framework must constantly evolve to improve the actions required to combat money laundering. Therefore, the regulatory authorities are bound regularly review and adjust its regulatory framework to close potential legal loopholes.

Vaughan (2002a) points out that the structure of the relationship between regulators and those organisations they regulate and supervise systematically mitigates regulatory effectiveness. Accordingly, the regulatory framework loses its usefulness through interdependent relationships that feed into the causal process. It is often the case that authorities compromise the sanctioning stage of social control by withholding harsh sanctions and making bargains with the organisations committing crime, thereby facilitating organisational decisions not to take the law seriously (Vaughan, 1998). As a result, the ineffectiveness of the regulatory environment is regarded to be one of the causes of financial crime in the business context (Sliter, 2007; Vaughan, 2002a). This supports the notion that security industry is prone to “...sloppy procedures, inadequate risk management, poor internal control system, botched-up communications amongst financial institutions, unwitting associations with criminal elements, and sometimes even conscious and deliberate departures from acceptable standards of conduct.” (Needleman and Needleman, 1979 p. 522)

Another example of a fraud case committed at the French Bank Société Générale in 2009 highlights the magnitude of losses caused by inadequate internal controls in the derivatives trading system (Coppi and Glebovskiy, 2009). Poor internal controls and a lack of warning indicators for early identification of potential money laundering techniques in derivatives trading lead to the loss of €4.82 Billion for Société Générale. It constitutes “a grievous indictment of the ability and willingness of the security trading industry to regulate itself” (Needleman and Needleman, 1979 p. 522).

Practice shows that a range of regulatory required compliance measures are often in conflict with banks’ budgets and the limited resources planned for response to the regulator’s requirements. For that reason, companies are resistant to increase costs of anti-fraud programs, since they look at the effectiveness of anti-fraud actions through a cost-benefit lens.

7.2.3 Criminogenesis in different macro-contexts

Within this context statement, I discuss macro-criminogenesis in regards to a particular system of economics – capitalism. However, an intriguing question is whether criminogenesis would look different in different macro-contexts, for example in a different economic system? To address this point, I will examine criminogenesis in another system of economics - socialism. Furthermore, I will discuss whether national culture as a form of different macro-context can influence the occurrence of fraudulent behaviour of individuals and businesses.

7.2.3.1 *The socialist economy*

Marxist criminology views capitalism as a system of economic production in which power is concentrated in the hands of a small number of individuals and where the majority have a dependency on an influential and powerful few (Bystrova & Gottschalk, 2015).

In a socialist economy, the means of production are owned by the state (i.e. public enterprises or cooperatives), which is opposite to the system of capitalism, under which the government rarely interferes in the economies of the free market. The socialist economic system is represented by state ownership, cooperative enterprises, and common ownership, whereas capitalism is a system in which persons privately own the means of production (Bystrova & Gottschalk, 2015).

Following from the above, the premise of socialist economics is that for cooperatives there are less ambitions or pressure for creation and expansion of shareholders value and profit maximisation as this is not on the agenda of the socialist planned economy (Hart, 1915). Therefore, it can be assumed that a range of criminogenic environmental factors present in the capitalist economic system are absent in socialist economics. Those macro factors encompasses intense competition, pressure to imitate successful peers, market uncertainties, and constant sectoral changes. The main reason for these circumstances is that the market in the system of socialism is not self-regulated, but rather controlled and governed by the state, giving public enterprises or cooperatives a plan what commodities to produce and how much to produce. In other words, customer-centricity is not in the focus of such an economic system. Both supply and demand within the market are not driven by customers, but by the state and factors such as structural dependencies between different cooperatives, cities, regions or even different socialist countries, e.g. countries of the former Soviet Union, former German Democratic Republic, and the Republic of Cuba.

On the other hand, some criminogenesis which occurs in capitalism appears to be present in socialism as well. In particular, the symbiotic and interdependent relationships between the state and public enterprises/cooperatives, as they formally represent the socialist government. In this context, the

dominant position of the state constantly causes a mismatch between the demand and supply sides. In socialist economics, this lack of equilibrium inevitably leads either to over- or undersupply of goods and services, respectively leading to over- or underproduction. Consequently, the economy of scarcity produced by the system of socialism has an enormous criminogenic impact on culture, norms, rules, and ultimately on the scale and magnitude of criminal activities committed by employees and organisations.

The economy of scarcity in a planned economy is the result of an absurd idea, that the state is able to precisely plan for the public's needs and demand by individuals. This seems to be very unlikely in practice since individuals' needs are dynamic in their nature and it is improbable that a state could plan their entire development. In this vein, undersupply of goods and services promotes the raise and growth of an informal, hidden economy (aka the 'shadow' economy). Such an economy consists of a number of 'grey sectors' producing and delivering goods which are in demand, but are not manufactured and offered by public enterprises and cooperatives, or they are offered but not in a sufficient number to cover individuals' demand. On the other hand, for example in the former Soviet Union, it was illegal by law to acquire goods and services in the 'grey market' or the so-called 'black market'. However, the majority of Soviet society was heavily involved in those marketplaces, since the public was looking for alternative ways to satisfy its demands, which forced the socialist state to unofficially tolerate the 'shadow' economy in order to avoid civil unrest.

The further consequences of the economy of scarcity is price usury and profiteering for goods and services in shortage. The existence of a lack of supply and high demand creates the attractive conditions for criminal entrepreneurs professionally engaging in the 'grey' markets. Such criminogenic settings contribute to the raise of hidden (criminal) structures and groups (e.g. mafia, organised crime), which are closely intertwined with the state and political elite. Moreover, the system of socialism in connection with the economy of scarcity lacks the focus on performance, generates products with below average quality, and produces 'shadow' accounting system for the bookkeeping of illegal revenue.

Additionally to this, socialist economics have the tendency to support a criminogenic working climate within organisations, which is a fertile ground for nepotism, favouritism, discrimination, suppression of free will and unequal treatment at work. In such a system, it is not uncommon that a managerial role in a cooperative is given not to a professional having a right expertise and competency to perform the task, but rather to a friend, a family member or a member of a political party. All that has an adverse effect on staff morale and fuels displeasure and perhaps even an antagonistic working atmosphere. It links also to the issue that the socialist system supports general public acceptance of

criminogenic conduct in day-to-day life. This is exemplified in behaviour such as ignoring and denying obvious problems, and not voicing the opinion, which is directly linked to the risk of retaliation.

A further negative outcome produced by the socialist economy is injustice and disrespect of the rule of law, as well as the widespread social acceptance of bribery and corruption supported by barter trade transactions, grounded in the *quid pro quo* principle. In an economy of scarcity, a self-serving mentality and thefts can quickly become part of national culture. The rationale of this is to gain personal advantage from professional positions as long as it is possible, epitomised in the belief that what is not embezzled, is getting wasted by the state anyway.

The crux of socialist economics is that the state is represented through public enterprises and cooperatives, which manifests in the fact that the state is the biggest and nearly the only employer in the socialist systems. The dominant position of the state in the market generates means that socialist planned economies works as a coercive force pressurising cooperatives into structural dependency. For instance, the supply chain in the planned economy is built on a chain of single suppliers, which are obliged, according to the plan, to supply a specific amount of goods as part of a fixed production process. The rigid structure of the supply chain epitomised in the lack of alternative suppliers leads to construction of a fragile chain, which is as strong as its weakest part. If a supplier is unable to deliver services at a specific point of time, the flow of the entire production process is easily disrupted and this break down would inevitably be a further contributor to the economy of scarcity. For that reason, criminogenic conditions such as shortages and poor quality of goods and services is an inherent side effect of the planned economy in the socialist system.

Like capitalism, the socialist system of economics suffers a plethora of organisational crime. In the countries of the former Soviet Union, the crimes committed by public enterprises and cooperatives in the name of the state were, for instance, environmental crime and pollution since the cost for environment protection were not considered in the planned economy (Los, 1982). A common example of environmental crime was the intensive production of energy from brown coal without using any filters or inappropriate disposal of waste. Also, to reach the planned economic figures, Soviet managers had to manipulate and optimise production quotas and Key Performance Indicators to demonstrate the achievement of the plan and therefore to secure their awards and good reputation. (Harrison, 2011). The more ambitious the targets were, the more likely it was that they were reached with falsified and manipulated reports. This example informs us that the strong target-driven culture and behaviour presented in both socialist and capitalism economic systems could have a similar criminogenic effect on individuals who strive to reach the goal by all means.

Overall, different macro-contexts represented through different political and economic systems could produce different types of criminogenesis, but they still have the similar coercive and facilitative effects on individuals and organisations. Even though rule-breaking is persistent in both socialist and capitalist economic systems, violations of the fundamental principles of the formal economic structure are however more persuasive in socialist economies (Los, 1982).

7.2.3.2 National culture

National culture provides another intriguing macro-context with a potential impact on the occurrence of fraudulent behaviour of individuals and businesses. Hofstede (1980, p. 25) defines culture as “the collective programming of the mind which distinguishes the members of one human group from another”. In this context, national culture delivers a distinct macro-economic context, which directly influences the conduct of business organisations and its members. Therefore, the intriguing questions to discuss whether there is a link between national culture and the tendency to engage in illegal and unethical behaviour, and whether cultural dimensions can influence the level of fraud risk. Hofstede’s (2001) suggests five dimensions of national culture that could be responsible for criminogenic stimulus:

1. Power distance (PDI) refers to “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unevenly” (Hofstede, 1997, p. 28).
2. Individualism (IDV) relates to the extent to which “the ties between individuals are loose” compared to collectivistic cultures, where “people from birth onwards are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty” (Hofstede, 1997, p. 51).
3. Uncertainty avoidance (UAI) explains that “uncertainty avoiding cultures shun ambiguous situations. People in such cultures look for a structure in their organisations, institutions, and relationships [,] which makes events clearly interpretable and predictable” (Hofstede, 1997, p. 116)
4. Long-term orientation (LTO) “stands for fostering of virtues oriented towards future rewards, in particular perseverance and thrift” (Hofstede, 1997, p. 261).
5. Masculinity (MAS) pertains to societies, in which social gender roles are clearly distinct. For instance, men are supposed to be assertive, tough and focused on material success, whereas women are expected to be more modest, tender, and concerned with the quality of life (Hofstede, 1997, p. 82).

Based on Hofstede’s (1980) culture theory, power distance is one of the major ways in which cultures around the world differ. PDI denotes the degree to which less authoritative members in a society comply with authority without question (power inequality). In high power-distance cultures, where power inequality between members of a society is acceptable to less authoritative members, subordinates are less likely to question orders from superiors or to report superiors’ unethical behaviour (Hinrichs, 2007). Thus, cultural factors may predict crimes of obedience by influencing how followers perceive authority (Chen, 2010).

Similar to crimes of obedience, the relationship between groupthink and employees' criminal behaviour may be mediated by cultural aspects. Hofstede's (1980) cultural dimensions model identifies individualism (or its opposite, collectivism) as one of the ways in which cultures across the globe differ. Individualism and collectivism refer to the degree to which individual happiness is valued over group harmony (Hofstede, 1980). In collectivist cultures, where group harmony is valued over individual happiness, the tendency to accept unethical behaviour is likely to be greater than in individualistic cultures (Carsten and Uhl-Bien, 2013). Owing to the importance attached to group harmony, individuals in collectivist cultures are likely to feel greater pressure to conform to group norms (Hinrichs, 2007). This is not the case for those in individualistic cultures: these individuals value independence and, hence, tend to express their own views, regardless of social relationships (Hofstede, 1980). However, this is not to say that criminal behaviour does not occur in individualistic cultures. In individualistic cultures, narcissistic behaviour, which may predict some types of crime, is likely to be more prevalent than in collectivist cultures (Chen, 2010).

It is indisputable that different national cultures provide different context to the actions of both individuals and business organisations. As a matter of fact, individuals and companies empower local culture by acknowledging the rules and norms of cultural habits of a country where they live and operate. Countries, where bribery and corruption is socially and culturally accepted, further fuel the criminogenic conduct of both individuals and companies alike (Lloyd Bierstaker, 2009).

In terms of my empirical data, Figure 7 shows an overview of countries where businesses were located where I was tasked with fraud instigation (column 4 in Table 2). Figure 7 shows data obtained from Hofstede's survey results (Hofstede, 2001) and Corruption Perception Index (CPI)¹² from Transparency International's 2018 survey.

Figure 7: Hofstede's national culture dimension scores and CPI of countries

| Country (column 4 in table 2) | Number of cases investigated | PDI | IDV | MAS | UAI | LTO | CPI (country rank 2018) |
|-------------------------------|------------------------------|-----|-----|-----|-----|-----|-------------------------|
| Germany | 10 | 35 | 67 | 66 | 65 | 31 | 80 (rank 11) |
| UK | 1 | 35 | 89 | 66 | 35 | 25 | 80 (rank 11) |
| Austria | 3 | 11 | 55 | 79 | 70 | 60 | 76 (rank 14) |
| Latvia | 2 | 44 | 70 | 9 | 63 | 69 | 58 (rank 41) |

¹² The Corruption Perceptions Index (CPI) is an index published annually by Transparency International since 1995 which ranks countries by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as the misuse of public power for private benefit. The CPI currently ranks 176 countries on a scale from 100 (very clean) to 0 (highly corrupt).

| Country (column 4 in table 2) | Number of cases investigated | PDI | IDV | MAS | UAI | LTO | CPI (country rank 2018) |
|-------------------------------|------------------------------|-----|-----|-----|-----|-----|-------------------------|
| Italy | 1 | 50 | 76 | 70 | 75 | 61 | 52 (rank 53) |
| Russia | 2 | 93 | 39 | 36 | 95 | 81 | 28 (rank 138) |
| Mexico | 2 | 81 | 30 | 69 | 82 | 24 | 28 (rank 138) |

Hofstede’s cultural dimensions could be useful in explaining criminogenesis associated with individual conduct in different cultural contexts (Khlif, 2016). Managers in countries with high degrees of power distance (PDI) concentrate power in their hands and possess the highest authority in decision-making, which might lead to taking more risky decisions. In countries with high degrees of individualism (IDV), employees and managers could be more concerned with pursuing their own interests, and in highly masculine societies (MAS), operating performance and achieving business goals is of the outmost importance (Zhang *et al.*, 2015). In countries with low degrees of uncertainty avoidance (UAI), managers are more risk-seeking and have a high tolerance degree for uncertainty (Khlif, 2016). Mihret (2014) suggests that individual propensity to engage in criminal activities are observed in countries characterized by lower long-term orientation (LTO).

One of the limitations of this discussion, for the overview in Figure 7, is the fact that in the fraud cases under my review, the nationalities of the culprits were not necessarily identical with the countries in which their companies were domiciled. In the majority of my fraud cases, the ethnic backgrounds of offenders were different from the national culture, especially at the management level at the international companies. Therefore, Hofstede’s cultural explanation is not fully applicable to discuss the causation of fraud cases in Table 2. These circumstances echo a general criticism of Hofstede’s study that it is based on the assumptions of ethnic homogeneity in an organisation and also neglects multicultural countries (e.g. Switzerland, the USA etc.) as well as cross-border cultures (Khlif, 2016).

However, national culture could facilitate a better understanding of fraud risk exposure, since “...behaviour, attitudes, beliefs, and values are not only the products but also the properties of groups”. (Cressey’s, 1955, p. 116). Therefore, anti-fraud programs should take into account cultural dimensions that may influence employees’ tendency to engage in criminal behaviour. In this sense, national culture is a key environmental characteristic for outlining differences in individual behaviour.

7.2.4 Variations in offending over time

Another interesting question is how variations in offending over time and across different contexts can be explained. The answer might be grounded in the fact that society's values change over time. Our perception of what is illegal or unethical changes constantly as our ethical and moral values develop further. Consequently, our values and definition of legality are the product of the time and society where they are created and reinforced.

For instance, The US government introduced the Foreign Corrupt Practices Act (FCPA) in 1977 to address bribery of foreign officials, which dominated international anti-corruption efforts for several decades. On the contrary, other countries followed this international standard much later, and were much later with enforcement of local laws criminalising bribery and corruption. For example, the United Kingdom passed the Bribery Act first in 2010. Also, Germany adopted international anti-bribery legislation and enacted a law banning bribery of foreign officials no earlier than 1999.

Considering this late development in German legislation, the prominent corruption cases in Germany such as Siemens and Mercedes-Benz cases exposed that the business practices of German companies had not changed after the new legal framework was enacted. So, the Mercedes-Benz case in Istanbul, discovered in 2006, revealed a long history of illegal practice. Also, Siemens identified in an internal investigation a high amount of 'questionable payments' paid in the period from 2000 to 2006. Evidently, old habits don't change overnight with the introduction of new laws. Companies with global infrastructure businesses and international footprint especially struggled to break the customs and traditions, which have become engrained in their company culture. Over a long period, bribery of foreign officials became the accepted business model in some divisions of Siemens and Mercedes-Benz. To conceal illegal activities, bribes were paid through pseudo 'consultants', who acted as intermediaries and helped to win foreign business contracts for these German corporations.

The 'fossil of those corruption cases' laid in the fact that until 1999, the law in Germany allowed bribes paid abroad to be regarded as tax-deductible expenses, which were euphemistically called in accounting jargon as 'useful expenditures' (German 'nützliche Aufwendungen'), but these were internally understood as bribes. To say it plainly, paying bribes abroad was absolutely legal in Germany until 1999 and bribes were deductible from taxable income, which is nowadays fully unacceptable. During my professional carrier, I was part of a forensic team investigating such bribery cases, collecting evidence, analysing the root-cause and implementing preventative actions (see my cases 11 and 16 in Table 2). Following from this account, the perception and definition of legality is affected by national legal frameworks, which vary with time. This means that different societies have different perspectives as to what is right, legal or ethical and these views change over a period of time and throughout

generations. Considering the fact that some corrupt practices in one country can be regarded as legitimate in another country, it remains a difficult task to further international anti-corruption effort across different nations and legal frameworks to combat corruption globally (Lloyd Bierstaker, 2009).

The other influential factor behind the variations in offending is the change in environmental factors. Paternoster *et al.* (1997, p. 231) give a criminological perspective behind changes in offending and argue that change produces a causal effect on criminal offending. In essence, as circumstances change, corporations find themselves engaging in criminal activities in varying intensities. As already discussed in section 5.1.3 “Financial crime and economic cycles”, for instance, economic cycles, periods of intense competition and economic pressure may yield increased corporate offending.

7.3 Meso-level

My empirical data suggested that progenitors of fraudulent activities in 12 out of the 21 fraud cases were represented by criminogenesis at the meso-level (column 10 in Table 2). The nature of this criminogenesis was typified by poor leadership style paired with unethical organisational culture, criminogenic structure and working environments promoting diffusion of responsibility and groupthink, cultures of anxiety and of exclusion, where the conduct of management was not questioned and cultural resisters were excluded from the group (see column 10 in Table 2). Even though the criminogenic factors mentioned above led to the occurrence of different *modi operandi* and types of corporate crime, all 12 fraud cases shared one commonality. This common factor was the fact that crime opportunity was collectively created and supported by both groups: managers who actively engineered fraud and even successfully integrated it into their business models (e.g. cases 1, 2 in Table 2), as well as by subordinates who were aware of fraud but did not try to prevent it from happening. I could especially observe the latter in two forms. Either the employees (so called 'passive bystanders') were 'wilfully blind and ignorant' and deliberately turn their attention away from the fraud schemes (e.g. cases 8, 11, 16 in Table 2) or they participated and actively 'helped' in form of 'active bystanders' to commit fraud but did not have any direct benefits from it (e.g. cases no 7, 9, 10 in table 2). In both instances, co-offending was an important element in collective crime nurtured and facilitated by meso-criminogenesis. Organisations and individuals do not operate in a vacuum. There is always someone else who is aware of malpractice but decides to remain silent. Following from this, I discuss below the criminogenic factors and conditions responsible for the outbreak of delinquency in 12 fraud cases which I investigated.

7.3.1 Groupthink effect supporting collective crime

Criminal behaviour in business organisations can be displayed by both leaders and their followers supporting the existence of collective reasoning in organisations. Indeed, criminal behaviour in business organisations encompasses what Palmer and Maher (2006, p. 365) described as collective crime: criminal behaviour that involves "sustained coordination among multiple organisational participants". Free and Murphy (2015) used the term "co-offending" to describe the phenomenon of collective crime, defining co-offending as the perpetration of criminal behaviour by more than one individual. Individuals willingly cooperate to pursue collective, but unlawful, objectives. Though solo offending (perpetration of crime by a single individual) occurs, the complex nature of most criminal activities in business organisations makes it quite difficult for a single individual to work alone (Free and Murphy, 2015). This view coincides with that of Honore de Balzac, a nineteenth-century French novelist: powerful individuals mobilise cooperation from those around them to perpetrate crime (Ruggiero, 2015b). When a network of perpetrators is created by a leader seeking to direct unethical

or unlawful behaviour, the blame and guilt for the crime can be diffused across all involved. The crime becomes one of the collective, not of the individual.

Collective crime involves four stages: initiation; proliferation; institutionalisation; and socialisation (Palmer and Maher, 2006, p. 365). In the initiation stage, executives authorise criminal behaviour following a cost–benefit analysis. The proliferation stage entails executives reaching out to their subordinates to commit the crime. As they are expected to obey authority, subordinates readily conform to directives issued by their superiors, even if the directives violate norms. With time, subordinates come to accept unlawful behaviour, leading to the institutionalisation stage. At the institutionalisation stage, criminal behaviour becomes part of organisational norms (Zyglidopoulos and Fleming, 2008). The final stage, the socialisation stage, involves introducing new members of the organisation to the criminal behaviour. Palmer and Maher's (2006) four stages of collective crime largely resonate with Milgram's perspective of crimes of obedience. The four stages demonstrate how ethically-deficient individuals at the apex of the organisation systematically and rationally lead otherwise law-abiding and ethically upright subordinates into criminal behaviour. One thing that is clear from the collective-crime model is that it is less likely for individuals in lower levels of the organisational hierarchy to commit crime without the direction of those at higher levels. However, this does not necessarily mean that lower-level individuals do not, or cannot, initiate crime.

For collective crime to occur successfully, certain interpersonal antecedents are vital: familiarity; friendship; and trust (Free and Murphy, 2015). These antecedents facilitate the development of affective bonds between co-conspirators, consequently promoting collective reasoning and collective offending, often to achieve individualistic objectives. The tendency to co-offend is especially driven by a sense of mutual dependency and reciprocity (Free and Murphy, 2015). In other words, once individuals develop affective bonds, loyalty to one another increases, making it less likely that an individual will act in a way that undermines collective aspirations. The co-offender group then rationalises crime and diffuses responsibility (Free and Murphy, 2015). Given the value individuals attach to group cohesion, a course of action is less likely to be abandoned once it is embarked upon, even if the action contradicts logic (Cohan, 2002). Individuals who challenge the course of action risk rejection from the group, and, thus, the blocking of resistance to the group's activities helps in maintaining group cohesion.

Literature has demonstrated that collective reasoning works in such a manner that people who would otherwise not commit crime unwittingly find themselves involved in criminal activity, with rationalisation techniques playing an instrumental role (Scharff, 2005; Free and Murphy, 2015). The initiator of the crime uses persuasion, manipulation, and rewards to recruit co-offenders, sometimes

without co-offenders knowing they are being lured into criminal activity. This phenomenon was demonstrated in Free and Murphy's (2015) study: some participants stated that they became involved in fraud unwittingly. What they perceived to be regular duties assigned by their superiors turned out to be mechanisms for committing fraud. Individuals being lured into criminal activity without knowing has also been reported elsewhere (Cohan, 2002; Palmer and Maher, 2006; Hinrichs, 2007; Murphy and Dacin, 2011; Klikauer, 2014; Ruggiero, 2015c).

The fact that individuals in an organisation can be persuaded to engage in criminal behaviour highlights the existence of groupthink in organisations. Groupthink theory was pioneered by Janis (1982; cited in Rose, 2011, p. 38), who defined groupthink as "a mode of thinking people engage in when they are deeply involved in a cohesive in-group, when the members striving for unanimity override their motivation to realistically appraise alternative courses of action". Groupthink means that, in a social setting, individuals are likely to act or think in accordance with group norms (Meisel and Fearon, 2006; Lowell, 2012; Stallen *et al.*, 2012). The phenomenon is characterised by excessive or blind loyalty, group dislike for dissent, unanimity, the tendency of rationalising unethical behaviours, and a sense of invulnerability (Scharff, 2005). Driven by the need to maintain group harmony, individuals avoid highlighting controversial acts or presenting alternative solutions (Rose, 2011). Gueguen *et al.* (2015) conducted a controlled experiment to demonstrate how an individual's behaviour tends to be different when acting alone and when acting in the presence of others. It emerged that, when alone, individuals had a higher sense of moral responsibility, but their sense of responsibility was reduced in the presence of others.

Owing to commitment to the group, individuals become silent accomplices in criminal behaviour (Lowell, 2012). In a similar fashion, social exchange theory posits that, when individuals perceive belongingness to the organisation as beneficial, they tend to show reciprocity via prosocial behaviours (Shin, 2012). Groupthink literature explains that such tendencies make individuals act in agreement with group norms, even if the norms deviate from ethical expectations (Bartlett and Preston, 2000; Pershing, 2003; Spicer, 2009). In a sense, individuals sacrifice their previously-held values and beliefs in favour of group values (Tourish and Vatcha, 2016). Bartlett and Preston (2000, p. 203) termed such group behaviour as pluralistic ignorance: "the condition in which members of a group will ignore the need to take notice of certain conditions provided all members of the group do the same". Individuals who fail to conform to group norms can face punishment.

Groupthink undoubtedly supports collective crime and lead to the emergence of criminal behaviour by employees and businesses. The phenomenon of groupthink helps to understand why it was possible for fraud to persist at companies in Table 2 without someone blowing the whistle. 12 business organisations from my empirical data pool created an atmosphere that support criminogenic culture and leadership style emphasising strong loyalty and conformity to the group, making it difficult (but not impossible) for employees to exercise their moral consciences.

7.3.2 Organisational structure, culture, and leadership

In 12 out of 21 fraud cases which I allocated to meso-criminogenesis, elements such as organisational structure, culture and leadership formed a strong impetus for fraudulent activities. They not only facilitate organisational misconduct but also actively offers legitimate opportunists to reach organisational goals in an unlawful way and to find illegitimate resolutions to organisation problems. Organisational structure is expressed in the division of labour, hierarchy, and specialized subunits. It creates structural secrecy and a lack of transparency through many divisions, and intra-organisationally settings where unlawful behaviour might occur in disguise with the minimum of detection and risk sanctioning (Vaughan, 2002). Furthermore, organisational processes, company culture and values, mechanisms for rewards and punishments may provide normative support for illegal and unethical behaviour (Vaughan, 2002).

Moreover, in any organisation, the management plays an instrumental role in determining the organisation's ethical climate with respect to aspects such as ethical behaviour and adherence to regulatory and professional norms (Murphy and Dacin, 2011; MacGregor and Stuebs, 2014). Ethical climate denotes shared meanings of ethical practices, policies, and procedures in an organisation (Shin, 2012). The ethical climate stipulates how employees should conduct themselves in fulfilling their roles and responsibilities (Free and Murphy, 2015). If organisational leaders are visibly committed to ethical behaviour, their followers are likely to demonstrate similar behaviours (Chen, 2010). Stewardship theory supports this assertion: if top leaders in an organisation display ethical conduct, there is likely to be collective ethical conduct across the organisation (Shin, 2012).

A number of studies have illustrated the crucial role of leaders in enforcing behaviour throughout the organisation. Following an experiment involving 96 undergraduate students, Cramwinckel *et al.* (2013) concluded that leaders are responsible for maintaining subordinates' ethical behaviour through reward and punishment mechanisms. Whereas the fairly small sample was used in Cramwinckel *et al.*'s (2013) study, it is evident that the culture and ethical climate leaders create in an organisation significantly shapes employees' ethical conduct. Shin's study is a valuable contribution to the literature on the role of top leadership and management in creating and maintaining a strong ethical climate in a firm. Other studies have also reported similar findings (Chen, 2010; Graham, Fallon and Cooper, 2015; Ziegert and Capitano, 2015). It can, therefore, be said that criminal behaviour is significantly less likely to occur without the sanction of leaders.

Ideally, organisational leaders instil ethical behaviour into followers by creating a corporate culture that discourages criminal or unethical behaviour. In reality, however, many corporate leaders do the opposite. Halebsky (2014) contends that high-ranking individuals in the organisational hierarchy

explicitly or implicitly create and sustain a culture that encourages and supports criminal behaviour. Through their legitimate authority, leaders have legitimate influence over followers (Beu and Buckley, 2004). Generally, followers feel obliged to obey this authority, irrespective of their individual preferences. Individuals with more loyalty to the leader or the organisation are more likely to obey the leader's perceived legitimate authority (Beu and Buckley, 2004). Such individuals tend to be loyal to the extent that they accept orders from the legitimate authority without question. Thus, given their perceived legitimate influence, leaders can easily shape subordinate behaviour and create a culture that mirrors their individual values and preferences. The trust leaders command from their followers also plays a crucial role in influencing follower behaviour (Cohan, 2002). Followers generally trust that the leader serves the organisation's best interests, making it easy for leaders to persuade followers into embracing their decisions. This helps create a situation, culture, in which a network of co-offenders can flourish.

My case study of corporate fraud found that senior managers within organisations cultivated a culture in which profitability was more important than ethical norms (e.g. case 1, 2, 11, & 16 in Table 2). Those businesses eventually became the centre of scandals in which it was revealed how poor organisational culture coupled with unethical leadership reinforced collective crimes. This revelation put a strong emphasis on that fact that organisational environment is an important predictor of employee criminal behaviour.

The first stage of the collective crime process as described by Palmer and Maher (2006) involves making a corrupt decision or initiating unethical behaviour. It is difficult to initiate such a decision or behaviour in an organisational climate where unethical behaviour is strictly disallowed. The initiation stage points to the fact that criminal behaviour often has a nexus, i.e. an origin or an initiator. Free and Murphy (2015) used a sample of 37 convicted organisational offenders to demonstrate this phenomenon. Though the offenders were involved in collective crime, most of them identified an individual who introduced them to the opportunity to offend. Although the small sample used in Free and Murphy's (2015) study may hinder the generalisation of the findings, the study provides useful insights into how leaders and managers create and maintain a climate of criminal behaviour. In most cases, collective crime is initiated by individuals who command a great deal of power and influence within the organisational hierarchy, i.e. managers or leaders (Palmer and Maher, 2006). As Free and Murphy (2015) put it, leaders proactively enlist co-offenders. They introduce their followers to criminal behaviour and count on their assistance to achieve selfish interests through illegal means, as was the case at Enron (Tourish and Vatcha, 2016). Ultimately, leaders set and maintain a tone that tolerates unethical behaviour (Fallon and Cooper, 2015).

Studies have shown that in an organisation where criminal behaviour is embraced, members of the organisation are gradually socialised into criminal behaviour through rationalisation of the behaviour, ultimately resulting in the normalisation of the behaviour (Ashforth and Anand, 2003; Fallon and Cooper, 2015; Tourish and Vatcha, 2016). Authority figures in the organisation socialise followers into criminal behaviour by creating a culture that promotes allegiance to authority as well as loyalty and deference to organisational interests (Halebsky, 2014). Through socialisation and institutionalisation, innocent bystanders become active rationalisers (Zyglidopoulos and Fleming, 2008). In such a culture, individuals are likely to commit crimes (Murphy and Dacin, 2011). Criminal behaviour is especially likely to be prevalent in a firm if followers are rewarded for engaging in the behaviour (Beu and Buckley, 2004). Leaders reward unethical behaviour if the behaviour advances the interests of the leader or the organisation (Cramwinckel *et al.*, 2013). Authority figures further institutionalise crime into organisational culture by formulating goals without specific mechanisms or sufficient resources for achieving them (Halebsky, 2014). Failure to achieve the specified goals may lead to negative consequences for subordinates, ranging from not being promoted to being dismissed. In such circumstances, subordinates may resort to extreme measures to accomplish the specified goals to impress their bosses (Beu and Buckley, 2004). The pressure to impress superiors may often create an excessively competitive organisational culture, in which subordinates constantly compete to accomplish tasks assigned to them in a quick and competent manner, irrespective of the task or any possible detrimental outcomes (Halebsky, 2014), i.e. efficiency takes precedence over ethical considerations.

An especially important characteristic that enables corporate leaders to normalise criminal behaviour is political astuteness (Beu and Buckley, 2004). Leaders can create a vision, build momentum, and forge order in an organisation (Solas, 2016). This is particularly true for charismatic leaders (Tourish and Vatcha, 2016). Using their political skills, individuals in leadership positions convey a transcendent vision to their followers: a vision that portrays unethical behaviours as beneficial to individuals, the organisation, or society (Beu and Buckley, 2004). At Enron, former executives Ken Lay and Jeffrey Skilling crafted and relayed a vision that promised what Tourish and Vatcha (2016, p. 463) termed “heaven on earth” – an overoptimistic future. This, in effect, endorsed criminal behaviour. Appealing to moral justification, leaders arouse follower interest and loyalty (Beu and Buckley, 2004). For followers who robustly embrace the leader’s vision, the advancement of organisational interests supersedes individual will. In the process, followers may fail to pay attention to possible unethical outcomes, making it easier for leaders to override moral considerations (Beu and Buckley, 2004). As a result, followers readily comply with every order given by the leader, believing it serves the best

interests of the organisation (Tourish and Vatcha, 2016). The leader's behaviour ultimately becomes the model for the organisation's ethical climate, resulting in the normalisation of criminal behaviour.

The role of organisational culture and leadership, coupled with organisational structure, paints the organisational environment as criminogenic, i.e. it has aspects that contribute to criminal behaviour (Free and Murphy, 2015; Fallon and Cooper, 2015). The pressure to obey authority and collective rationality increase the likelihood of individuals who would otherwise not do so engaging in criminal behaviour (Palmer and Maher, 2006; Murphy and Dacin, 2011). The likelihood is further strengthened by normalisation techniques. Studies have shown that once generally law-abiding individuals enter the organisational setting, they can become accomplices in criminal activities (Beu and Buckley, 2004; Palmer and Maher, 2006; Halebsky, 2014). Lowell (2012, p. 19) shared similar sentiments, arguing that "organisations are corrupting institutions" that cause previously morally upright individuals to engage in criminal behaviour. Cohan (2002) used Enron as a case study to demonstrate how an organisation's internal dynamics predict crime: the downfall of the giant firm revealed glaring shortcomings in the firm's organisational culture, which enabled executives to commit fraud. The case study nature of Cohan's (2002) study may present generalisation difficulties, but it is not hard to discern the connection between a firm's internal environment and employees' criminal behaviour.

One wonders how Enron's accounting irregularities persisted for several years without detection. Cohan's (2002) case study of Enron identified a culture of intimidation as one of the reasons. In corporate cultures in which criminal behaviour is normalised, subordinates who might want to report deviant behaviour may not do so due to fear and intimidation (Free and Murphy, 2015). At Enron, individuals who attempted to challenge the accounting practices of the firm's former CFO, Andrew S. Fastow, faced possible reassignment or loss of bonuses (Cohan, 2002). Testifying before a congressional committee, one of Enron's former executives, Sherron Watkins, straightforwardly stated that confronting the board with her concerns about the firm's accounting practices would have effectively terminated her job (Cohan, 2002). In such a corporate culture, subordinates remain tight-lipped despite knowledge of pervasive criminal activities within the organisation (Chen, 2010). As demonstrated in MacGregor and Stuebs' (2014) study of graduate accounting students, individuals become passive fraudsters, remaining fallaciously silent. This silence means that individuals avoid raising the alarm for any wrongdoing they witness, or are requested to participate in, at the workplace. In effect, criminal behaviour persists.

Another reason Enron executives committed fraud for so long without the board noticing stems from the inherent relationship between the board and the executive management. Operationally, the board is isolated, making it difficult for the board to effectively supervise executives (Cohan, 2002). This

isolation undermines the flow of information between executives and the board. Isolation between the board and executives remains a widespread problem in corporate America: in many large corporations, top decision makers (the board) operate “in purely imaginary worlds” (Cohan, 2002, p. 279). As a result, the board may not have access to the relevant information before a scandal is uncovered. Reed (2012) added that, due to the diffusion of information and responsibility in most contemporary organisations, no single individual may be completely aware of unlawful activity in the organisation. Individuals who may have an idea that all is not well may assume that the senior management has knowledge of the problem, and has allowed it, or may remain silent for fear of negative consequences.

7.3.3 Competitiveness and goal-oriented nature of businesses

Another observation I made in the course of analysing fraud cases, is that the goal oriented nature of businesses in connection with market competition and rivalry have a direct criminogenic impact on business conduct. In a market environment shaped by scarce resources and high competition, business organisations endeavour to secure strategic resources. Primarily, they strive for the ends that resources represent: power, economic success, positive image, or symbolic representations of achievement (Gao, 2010; Vaughan, 2002).

The reality shows that not all companies that compete can win or prevent their falling completely. In these circumstances, many companies that cannot reach their business goals through legitimate means might experience pressure to attain them by other means (Clinard, 1992; Vaughan, 2002). If the company bow to these pressures and consider illegal routes to their objective, then the tools, mechanisms and strategies of firms' rivalry become unlimited (Dion, 2010). The spirit of competition in a highly competitive market is the main driving force that can push business organisations to the boundary of legal conduct (Gao, 2010).

The degree of competition in a market hinges on the factors such as threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services, and the intensity of competition (Porter, 1980). In this context, the pressure towards similar behaviour for business organisations results chiefly from tense market competition and a high degree of rivalry (Aldrich, 1979; Hannan and Freeman, 1977). Isomorphic process that business organisations might decide to undergo is directly related to the degree of competitiveness found in each industry. Paul DiMaggio and Walter Powell (1983) suggest the existence of competitive isomorphism that primarily occurs through the pressure on organisations to copy successful firms due to market competition (Beckert, 2010).

Vernard *et al.* (2008) argue that the higher the degree of market competition, the higher the level of corruption and illegal behaviour in this market. Tullock (1996) backs up this notion that a highly competitive market provides stronger incentives for companies to use any possible means to gain a competitive edge – even illegal methods. Heath (2008, p. 605) highlighted that the fact of businesses' engagement in competitive interactions gives firms broader licence to conduct themselves in legally questionable ways.

Based on their research in the automobile industry, Leonard and Weber (1970) pointed out the criminogenic elements of market competitiveness that create a crime-facilitative environment for their participants (Needleman and Needleman, 1979). In such environments, with high sales pressure and low margins, auto dealers introduced diverse fraudulent practices in order to remain competitive in

the business. So, it was essential for the existence of their business to be engaged in 'kick-back' schemes and in compensatory profit system taking through fraudulent service operations or illegal 'short-sales' actions that generated unrecorded cash for kick-back payments (Leonard and Weber, 1970).

Undoubtedly, market competition is one of the forces that creates strains and uncertainties in the market. In a scarce environment, business organisations experience even more pressure to apply legally questionable activities and unfair market practices such as price fixing, franchise violation, or tying arrangements (Vernard and Hanafi, 2008). In criminogenic markets, an unethical practice which is regarded as 'the way things are done' that can readily become an unwritten rule of competition (Collins *et al.*, 2009). Such markets breed crime by failing to prevent it (Cassel and Bernstein, 2007 p. 229).

The competitive structure of the marketplace generates the perception that the main players have "no choice" but to violate the law (Heath, 2008, p. 605). The companies frequently use the excuse to violate the law that they are acting out of necessity since other competitors break the law and yet escape prosecution (Tulloch, 1996). It shows that the business practice is often in the competitive market out of touch with legal requirements and social expectations (Heath, 2008).

There is a case to assume that the most organisations abide by the law and adhere to ethical rules of behaviour most of the time. Yet both market pressure and firms' profit ambitions can lead some companies "to engage in nonconforming conduct" in order to achieve their business goals (Murphy and Robinson, 2008, p. 502).

There are numerous environmental uncertainties for corporations which makes it difficult to achieve organisational goals, without bending, evading or breaking legal regulations (Box, 1983, p. 35). The source of some of these uncertainties are competitors, tight price structure, new mergers, product innovation and expanding markets. An increase in uncertainties cause high pressure towards corporate crime (Piquero and Piquero, 2006; Box, 1983).

A business organisation is a legal entity which conduct business with the main goal of producing economic profit (Palacios, 2015). In this sense, the goal-oriented nature of organisations is a complementary element to the forces arising from the competitive market environment. Criminogenesis generated by the goal-oriented character of business organisations are reinforced by the competitiveness of the market and *vice versa*. In other words, the degree of competitiveness in a given market and the goal oriented nature of businesses are mutually supportive and to some extent reinforcing.

7.4 Micro-level

The analysis of criminogenesis in my 21 fraud cases revealed that the root-cause of fraud in 18 out of 21 cases can be attributed to criminogenic factors housed at the micro-level (see column 10 in Table 2). This is a remarkable result for me, highlighting the importance of individual integrity, belief, values and personal traits in both fraud occurrence and prevention. In other words, the individual remains one of the key contributors to fraud occurrence and risk mitigation. Although corporate crime concerns misconduct of companies, such activities are engineered and instigated by people. As Box (1983, p. 38) pointed out “organisations *per se* do not plan, think, or act; there are human agents eagerly willing to accomplish these in its good name”.

The analysis of data revealed that eight out of 18 cases related to micro-criminogenesis were committed by employees in managerial positions, who misused their power to perpetrate fraud and to coerce their subordinates to participate in fraudulent activities. Even though the internal controls appeared to be operating effectively, managers violated their executive positions and authority to override controls. Such behaviour was grounded in the frail morality of individuals and personal characteristics of the fraudsters such as narcissism, hubris, Machiavellianism (aka ‘Dark-Triad-traits’) coupled with ambitiousness, shrewdness and greed. These are the salient individual traits that influence an individual’s propensity to engage in wrongdoing (Moore *et al.*, 2012). Employees which were coerced into illegality by upper managers showed unquestioning loyalty to superiors and the lack of critical thinking. Further criminogenic ingredients identified in my cases were a strong predisposition of individuals to employ rationalisation mechanisms, displacement of responsibility and moral disengagement.

Three out 18 fraud cases were also committed by individual offenders, who neither had any managerial positions nor needed to be forced into illegality by managers. The individual fraudsters were aware of the weaknesses of internal controls, and had the knowledge and technical skills to commit fraud. These instances represented the classic cases of how the Achilles’ heel of internal control systems can be misused when the opportunity arises (see case no 14, 15, 20 in table 2).

To further elaborate on the influences on employee criminal behaviour, I debate below micro-level antecedents identified throughout 18 fraud cases such as bad leaders and bad followers, lack of critical thinking supporting crimes of obedience, displacement of responsibility and moral disengagement, cost–benefit thinking and rationalisation of criminal behaviour.

7.4.1 Bad leaders

The widespread nature of criminogenic cultures in business organisations strongly suggests that many organisations have 'bad' leaders. In other words, unethical corporate cultures are unlikely to exist if employees led by ethical leaders. As it emerged in the aftermath of major accounting scandals involving Enron, WorldCom, Parmalat, and Satyam, unethical leadership was largely to blame (Chen, 2010). Indeed, many leaders in the business context have a dark side (Meisel and Fearon, 2006), i.e. they lack integrity and tend to be driven by selfish goals. The analysis of the origin of fraud cases from my data, points to the existence of narcissistic, Machiavellian, psychopathic, and misanthropic leaders contributed to outbreaks of criminal behaviour. Obsessed with superiority, and driven by greed, such individuals are cunning perpetrators of wrongdoing. Narcissism (obsession with self), promotes a culture of greed, causing leaders to lose moral consciousness (Hornett and Fredricks, 2005). Narcissistic individuals tend to be overconfident, self-preoccupied, self-aggrandised, and have a strong desire for reaffirming their superiority (Chen, 2010). This can, in turn, impair an individual's judgment, increasing the likelihood of engaging in unethical behaviour and rationalising the behaviour. Based on computer simulations, Chen (2010) illustrated that CEO narcissism, coupled with financial rewards and silence on the part of subordinates, could lead to unethical or criminal behaviour. Machiavellian individuals are individuals who are willing to use any technique or behaviour to achieve their goals, including deception and manipulation (Belschak *et al.*, 2016). Found in most organisations, these individuals tend to be antisocial, persuasive liars, amoral actors, less conscious about ethics, as well as untrusting and cynical (Belschak *et al.*, 2016). They are strongly goal-driven and usually exert pressure on their followers to achieve goals, even if it means resorting to unethical means. Since narcissistic and Machiavellian tendencies are significant predictors of ethical conduct, they are vital determinants of employee criminal behaviour in the business context.

Machiavellian and narcissistic behaviours are often displayed by charismatic leaders (Hornett and Fredricks, 2005). Unlike transformational leaders, charismatic leaders are totalitarian, power-driven, individualistic, coercive, controlling, manipulative, less empathetic, and less tolerant of criticism (Tourish and Vatcha, 2016). This predisposition can promote ethical dysfunction. With Enron as an example, charismatic leadership fosters cultism and high levels of confidence, arouses excessive confidence in the leader, punishes dissent, and cultivates a culture of deviance (Tourish and Vatcha, 2016). Deviating from norms is often seen as a way of achieving the leader's compelling vision.

Closely related to narcissism is hubris. Hubris essentially refers to overconfidence in one's skills, abilities, talents, contributions, and importance to others. This is a common trait among charismatic leaders. Charismatic leaders tend to feel they are in control of situations, even when they may not be

(Tourish and Vatcha, 2016). They create an illusion of control by exaggerating self-descriptions and visions, managing impressions, limiting negative information, and blaming external events for negative outcomes (Tourish and Vatcha, 2016). This illusion of control may predict criminal behaviour in business organisations. Over-optimism leads to individuals ignoring reality, feeling omnipotent, underestimating ambiguities, and overrating their judgments (Cohan, 2002). This causes individuals to develop a sense of being less vulnerable to failure or everyday threats. Excessively confident and optimistic individuals tend to maintain their convictions even when potential dangers become apparent. This can be a recipe for ethical failure.

Regrettably, individuals with narcissistic, Machiavellian, and hubristic characteristics are often elevated to positions of power based on their behaviour, or misbehaviour. Solas (2016) offered two explanations for this. First, narcissistic, psychopathic, and Machiavellian traits are assumed to coincide with exceptional leadership characteristics. In particular, Machiavellian individuals are often seen as more pragmatic, winners, and more persuasive (Belschak *et al.*, 2016). Also, optimistic and confident individuals are deemed to be more effective leaders in terms of influencing and persuading others, aggressiveness, and decisiveness (Cohan, 2002). The other reason is that these tendencies permeate organisations. Whereas it is broadly acknowledged that narcissistic, psychopathic, and Machiavellian leaders promote harmful behaviour, it is often difficult to resist their authority or eliminate them from power (Solas, 2016). Indeed, business organisations do not replace CEOs as often as the prevalence of unethical or illegal behaviour may dictate. Power and influence places leaders in hard-to-reach positions and protects them from typical redress methods (Solas, 2016). This enables leaders to justify their behaviour, often citing the need to undertake whatever means necessary to ensure the success of the organisation in a fiercely competitive business environment. The tendency to rationalise criminal behaviour is especially exacerbated by the exorbitant remuneration corporations award executives (Friedrichs, 2009). Executive remuneration is perhaps an area that requires greater attention with respect to addressing unethical leadership in business organisations.

7.4.2 Bad followers

Although criminal behaviour can be the result of bad leaders, the role of 'bad' followers cannot be ignored. According to Solas (2016), followers are also to blame for the prevalence of criminal behaviour in organisations. As mentioned earlier, it is common for followers to be passive when it comes to the leadership process (Carsten and Uhl-Bien, 2013). Literature has demonstrated that passivity makes many followers support bad leaders in doing wrong (Gueguen *et al.*, 2015; Solas, 2016). It must, however, be noted that followers usually do not have a choice regarding obeying the authority of their leaders (Beu and Buckley, 2004). While many followers engage in criminal behaviour simply as a result

of obeying leadership authority, others commit crime for the same corrupt reasons leaders do (Solas, 2016). It is, therefore, plausible that some followers are as unethical as leaders. One would expect that ethical followers would blow the whistle, or leave the organisation; however, since they remain in the system, these followers can be seen as equally unethical. Zyglidopoulos and Fleming (2008) concurred with this view.

Machiavellian behaviours are prevalent not only in leaders, but also in employees. The presence of Machiavellian followers in an organisation may predict unethical behaviour. Using a sample of 350 managers and employees drawn from diverse sectors and industries in the Dutch context, including private and public sector organisations, Belschak *et al.* (2016) showed that when Machiavellian employees are led by a Machiavellian leader, employees' trust in the leader decreases significantly, which may lead to stress and unethical behaviour on the part of employees. Generalising Belschak *et al.*'s (2016) findings may be problematic due to the cross-sectional and contextual nature of the study (conducted in the Dutch context), but the findings suggest that it is important for organisations to handle Machiavellian employees with discretion. This is crucial for avoiding or minimising potentially detrimental outcomes for the organisation. However, given the unethical behaviour of leaders and followers, Bartlett and Preston (2000) suggested that it may be difficult for absolute ethical behaviour to exist in business organisations as they are inherently designed to be profit-seeking. Individuals will often choose between success and failure, not between bad and good (Bartlett and Preston, 2000). If success is all that matters, the end may justify the means, even if they are sometimes illegal or unethical. It is apparent that the influence of individual criminogenesis cannot be understated. The criminogenic individual factors are likely to enforce criminal behaviour in the presence of criminogenic organisational aspects. Thus, it can be assumed that individual and organisational factors interact to influence employee criminal behaviour.

7.4.3 Lack of critical thinking supporting crimes of obedience

One of the reasons as to why employees engage in criminal activity in the workplace is obedience to authority, referred to as crimes of obedience (Hinrichs, 2007). Research on crimes of obedience was pioneered by Stanley Milgram in the 1960s. Milgram's seminal experiments demonstrated how obedience to authority destabilises an individual's moral standpoint, consequently resulting in involvement in criminal or unethical behaviour (Milgram, 1965). Crimes of obedience are criminal activities that arise from follower compliance with leaders' unethical demands (Carsten and Uhl-Bien, 2013). These crimes occur when superiors direct their subordinates to commit actions broadly viewed as illegal or unethical. The fraud cases I investigated revealed that several breaches were directed by top management.

Crimes of obedience largely occur because of followers lacking critical thinking and the perceived power difference between leaders and followers (Carsten and Uhl-Bien, 2013). By virtue of the authority they have over them (Ruggiero, 2015a), leaders may sometimes instruct followers to engage in unethical behaviour (Hinrichs, 2007). They make use of their power and influence to convince their followers that they do not have a choice if they want to keep their jobs. This, in effect, means that followers are required to focus on doing their jobs, which may sometimes means doing something unethical or illegal, and not the consequences of their actions (Beu and Buckley, 2004). Generally, followers do what their leaders say as they tend to feel powerless. In Zyglidopoulos and Fleming's (2008) continuum of destructiveness, subordinates are described as innocent bystanders: individuals who commit crime unknowingly. The most recent corporate scandals (e.g. Enron, WorldCom, and Tyco) attest to this: most of the individuals identified as perpetrators were not evidently unethical either prior to joining the firm or in their non-work lives (Zyglidopoulos and Fleming, 2008). The individuals perhaps would not have committed crimes in the absence of social and institutional forces. Reed (2012) explained crimes of obedience using the concept of 'administrative evil', a phenomenon in which otherwise ethically sensitive and law-abiding individuals are influenced by systems that cause them to participate in criminal behaviour, often without knowing that the behaviour is criminal.

As demonstrated in the crime of obedience literature, it is difficult for individuals to uphold their morality when they become members of an obedience-enforcing, hierarchical system (Klikauer, 2014). The existence of structures that enforce obedience to authority exist in virtually every social setup, including business organisations. So long as authoritarian structures remain prevalent, unethical behaviour is inevitable (Klikauer, 2014). Milgram used the Nazi regime to demonstrate this inevitability by pointing out that Nazi soldiers would not have committed atrocities against Jews and other civilians without the direction of Adolf Hitler and other authority figures (Murphy and Dacin, 2011). For many

subordinates, unethical directives from superiors often present a dilemma: on one hand, subordinates have a duty to obey their superiors, while on the other hand, the directives issued to them by their superiors may contradict their personal beliefs or universally accepted norms (Beu and Buckley, 2004). Given that organisational structure often demands obedience to superiors, it can be difficult for subordinates not to comply with unethical requests.

Milgram (1974; cited in Hinrichs, 2007, p. 70) illustrated that the predisposition to comply with orders from authority figures is not always instinctive. He intimated that, through reward and punishment systems, individuals are socialised or compelled to obey orders from superiors. The inference that can be made from Milgram's work is that situational or contextual factors (factors in the organisational environment) lead to crimes of obedience. These factors, especially hierarchy (organisational structure), may influence the extent to which individuals obey or disobey unethical requests from their superiors (Carsten and Uhl-Bien, 2013). When individuals become members of a legitimate hierarchical system, they feel obliged to follow the directives of those in authority. Since certain organisational characteristics, such as organisational structure, determine the degree to which individuals obey or disobey unethical requests from their superiors, addressing those characteristics may have positive implications in terms of dealing with crimes of obedience. Milgram's work remains a seminal contribution to the literature on crimes of obedience, even though it ignores the influence of structural factors on criminal behaviour in an organisational context (Klikauer, 2014).

Differences in how individuals may act in the face of ethical situations may be explained by social cognitive theory, which demonstrates that individuals differ with respect to their self-regulatory capabilities and self-regulation orientations (Beu and Buckley, 2004). Specifically, individuals with strong self-regulatory capabilities emphasise personal standards and are less likely to act in ways that violate these standards. Conversely, individuals with weak self-regulatory capabilities emphasise societal standards and are more likely to behave according to the demands of the situation at hand. In accordance with the crimes of obedience perspective, individuals in an organisation are more likely to act as dictated by organisational hierarchy and organisational norms, meaning susceptibility to crimes of obedience is likely to be greater in individuals with lower self-regulatory efficacy (Hinrichs, 2007).

The fact that some individuals may resist authority indicates that individual-level factors, not just organisational factors, play an influential role in shaping crimes of obedience in the business context. For example, an individual's level of loyalty to an authority figure may augment the obedience effect: loyal followers are likely to obey authority and subsequently commit crimes of obedience (Murphy and Dacin, 2011). An individual's beliefs and worldviews may also influence the tendency to commit crimes of obedience. Carsten and Uhl-Bien (2013) showed that the propensity to obey unethical requests is

likely to be greater if an individual has authoritarian beliefs, i.e. the belief that subordinates should not question the directions of their superiors. Individuals with such views believe that defying the orders of superiors may have negative consequences for themselves, such as demotion or even dismissal (Halebsky, 2014). Fearing such consequences, many individuals are likely to comply with unethical requests.

Whether followers comply with unethical requests from leaders may also be a function of an individual's perceptions about their role as a follower. Literature has demonstrated that followers have different beliefs regarding their role in the process of leadership; some view their roles as obedient and passive, while others view their role as active and collaborative (Hinrichs, 2007). Using a sample of 161 workers, Carsten and Uhl-Bien (2013) established that individuals with weaker beliefs regarding their followership role were more likely to engage in crime compared to individuals with stronger beliefs. If followers believe that their followership role is passive, they are more likely to obey unethical requests from their leaders (Solas, 2016). Seeing their role as passive, such followers usually feel powerless when directed by their leaders to engage in unethical behaviour. Also, followers who obey unethical requests do so because they perceive their superiors to be more knowledgeable regarding what is best for the organisation (Solas, 2016). Conversely, as it emerged in Carsten and Uhl-Bien's (2013) study, followers who view their followership role as active are more likely to object to unethical requests. That is, followers who believe they have an active role in leadership see themselves as co-producers of leadership; hence, they are more likely to object to unethical requests. Active followers are individuals who practice constructive resistance to authority. Rather than complying with unethical requests, active followers offer alternative approaches, voice constructive perspectives, influence leaders, and work alongside leaders to achieve positive organisational and leadership outcomes. Though non-experimental in nature, Carsten and Uhl-Bien's (2013) study provides crucial insights into the criminogenic antecedents of employee criminal behaviour in business organisations, especially at the individual level.

Beliefs about the role of followers in leadership can be explained using the theory of reasoned action, which holds that attitudes and behavioural intentions are shaped by individual beliefs (Carsten and Uhl-Bien, 2013). As explained by Hinrichs (2007), these beliefs develop throughout an individual's life as they receive direct and indirect feedback from influential others (e.g. peers, teachers, coaches, and colleagues) regarding their leadership potential. The feedback one receives significantly influences how one gradually defines the notion of leadership, or the leader–follower relationship (Hinrichs, 2007). Individuals who receive negative feedback regarding their leadership capacity may come to believe that their leadership is not valued or not wanted, and that they are predestined to be followers,

not leaders. As a result, an individual might eventually become passive with respect to leadership and ethical behaviour, consequently increasing one's likelihood of committing crimes of obedience (Gueguen *et al.*, 2015; Solas, 2016). Hinrichs' (2007) analysis introduces an intriguing dimension to the crimes of obedience discourse by illustrating how individual beliefs regarding leadership may predict criminal behaviour in the organisational setting.

Nonetheless, it is important to note that beliefs about leader-follower relationships do not just occur in a vacuum – they are shaped by broader social and cultural factors. Some literature shows that cultural characteristics substantially affect how members of a given society or group view power and authority (Hinrichs, 2007). Besides beliefs regarding followership roles, followers' romanticisation of leadership may influence the extent to which followers obey or disobey unethical requests from leaders (Carsten and Uhl-Bien, 2013). Whether followers obey or disobey unethical directives from their superiors is dependent on how followers perceive the importance of their leaders to the success or failure of the organisation. When followers romanticise a leader, they tend to attribute organisational success or failure to the leader, often downplaying contextual factors such as the contribution of subordinates (Carsten and Uhl-Bien, 2013). While scholarly work has not directly connected the romanticisation of leadership to crimes of obedience, Hinrichs (2007) proposed that followers who overestimate the importance of leaders are more vulnerable to crimes of obedience. Individuals who romanticise leaders, therefore, view leaders as all-powerful individuals with extraordinary skills and abilities to solve ethical dilemmas and believe that obeying the leader's directives serves the organisation better than their own judgement.

To summarise, individuals in an organisation can find themselves in situations in which they are directed by authority figures to perform actions that may be illegal or unethical. Through the obedience effect, and driven by loyalty to superiors as well as beliefs about leadership and followership, individuals may comply with directives without considering whether they are legal/ethical or not. Though the literature on crimes of obedience mainly focuses on organisational structure, ignoring other organisational factors that may also predict criminal conduct, it significantly enhances our understanding of employees' criminal behaviour. This understanding provides an important building block for the development of an integrative model of criminogenesis.

7.4.4 Displacement of responsibility and moral disengagement

Hierarchy effectively increases the distance between individuals who authorise criminal behaviour and those who commit the crime (Halebsky, 2014). While authority figures do not necessarily have to be involved in committing a crime, they may often make decisions that violate norms and then direct their subordinates to execute them. In this way authority figures distance themselves from any undesirable consequences of the unethical or illegal act. For their part, subordinates may sometimes be unaware of the implications of their actions, particularly because they may not have been involved in decision making (Halebsky, 2014). The pressure to obey authority can make subordinates unaware of the illegality or immorality of their actions (Murphy and Dacin, 2011). Thus, management by obedience results in criminal behaviour by blinding those who commit crime to the negative consequences associated with their actions. For many subordinates, obeying the orders of a superior can be more important than moral considerations. This suggests that owing to situational factors, individuals may continue to commit crime while their morality remains intact; they hold the same beliefs about morality even as they are doing things which conflict with those beliefs. Situational factors in effect disengage an individual's moral identity, consequently increasing one's likelihood of committing crimes. The case of WorldCom is a perfect example: during the trial, the firm's former chief financial officer (CFO), Scott Sullivan, revealed that his boss, the firm's chief executive officer (CEO), had ordered him "to hit the numbers" (Murphy and Dacin, 2011). Given the pressure to obey his boss, it is possible that Sullivan was blinded to the criminality of his actions. That is, Sullivan may not have considered the moral implications of his actions as obeying the orders of his boss may have been more important.

As individuals who actually commit a crime may not have been involved in planning it, they are likely to have little or no sense of moral responsibility for the negative outcomes associated with the crime (Halebsky, 2014). This phenomenon is referred to as the displacement of moral responsibility (Carsten and Uhl-Bien, 2013). Followers comply with unethical requests from their leaders by displacing responsibility for unethical conduct from themselves onto leaders (Carsten and Uhl-Bien, 2013). The notion of displacement of responsibility means that followers who obey unethical requests believe they are not at fault, given their inferior position, seeing themselves as naive accomplices (Klikauer, 2014). Displacing responsibility constitutes an important aspect of moral disengagement, a social-cognitive mechanism through which individuals disconnect their involvement in immoral behaviour from the implications of that behaviour (Carsten and Uhl-Bien, 2013). Originally developed by Albert Bandura, the concept of moral disengagement is premised on the cognitive dissonance perspective, a phenomenon whereby an individual's behaviour contradicts their understanding of the world (Moore, 2008; Lowell, 2012; Johnson and Buckley, 2015). Based on social-cognitive theory, individuals have

self-regulatory mechanisms that shape their moral agency, thoughts, and behaviour (Beu and Buckley, 2004). Exercising these internal mechanisms prevents individuals from engaging in criminal or unethical behaviour in the face of ethically complex situations. Individuals, however, have a tendency to disengage their self-regulatory mechanisms in a selective manner (Hinrichs, 2007), i.e. they fail to exercise self-regulation in certain cases. According to Zyglidopoulos and Fleming (2008), moral disengagement entails creating distance between an act and its potential unethical outcomes. When individuals create an ethical distance, the consequences of an act become secondary or are completely ignored.

The tendency to ignore moral considerations reveals an innate feature of human beings: they do not always act rationally. Behavioural theory demonstrates that this irrationality significantly influences human decision making (Cohan, 2002). Irrationality, according to Cohan (2002), is defined as unconscious motivations and feelings, such as loyalty and friendship. These unconscious emotions govern individuals' lives to the extent that individuals will act illogically. In the organisational setting, individuals will often undertake actions that violate ethical norms, even if the negative consequences are *known*. Irrationality makes individuals disregard information or developments that challenge their preconceived attitudes and beliefs, misconstrue events, or rationalise deviance from norms (Cohan, 2002; Tourish and Vatcha, 2016).

Leaders play a particularly vital role in creating moral disengagement in their followers: they cognitively frame their conduct in a manner that leads to followers believing their actions do not have negative outcomes (Beu and Buckley, 2004). As was the case at WorldCom and Enron, leaders framed their actions in a positive light, in effect blinding their followers to the immorality or criminality of their actions. (Moore, 2007; Lowell, 2012). This effect is more readily achieved in an organisational structure where followers are simply required to do their jobs without questioning orders from their superiors. By morally disengaging their followers, leaders can accomplish selfish objectives, irrespective of the impact on others or the organisation.

Followers displace responsibility for unethical behaviour onto leaders because they perceive leaders as possessing greater moral responsibility than themselves (Carsten and Uhl-Bien, 2013). Such perceptions about moral responsibility, according to Hinrichs (2007), stem from power differences between leaders and followers: leaders command greater power than followers, thereby being perceived by followers as more responsible for ethical conduct. Following from this view, followers generally believe they are subject to a lower moral standard than leaders. Ideally, however, organisations desire both leaders and followers to have an equal sense of moral responsibility

(Hinrichs, 2007). This is crucial for maintaining a climate of ethical behaviour throughout an organisation.

Followers who believe they are less morally responsible than leaders tend to be more open to the unethical demands of leaders and have a tendency of displacing moral responsibility for their actions onto their leaders (Hinrichs, 2007). By displacing responsibility for unethical behaviour onto leaders, followers avoid the negative implications of their unethical behaviour (Carsten and Uhl-Bien, 2013). Individuals who displace responsibility believe they cannot be held responsible for their criminal behaviour as they simply complied with orders given by their superiors. This “agentic shift” causes followers to feel accountable to their leaders, but not for the consequences of the actions they carry out under the direction of their leaders (Klikauer, 2014, p. 948). During the Nazi regime, one of the key figures involved in identifying Jews and delivering them to death camps was Adolf Eichmann, a mid-level officer in the Nazi organisational hierarchy (Halebsky, 2014). After World War II, Eichmann fled to Argentina, but was captured in 1960 and put on trial in Israel for crimes against Jews. During his trial, Eichmann asserted that he was not responsible for the killing of any Jew as he was simply following directives issued by his superiors (Halebsky, 2014). Though the Nazi regime was not a business organisation, it is a useful case for understanding how subordinates commit crimes of obedience and subsequently displace responsibility for criminal behaviour onto their superiors.

The displacement of responsibility and moral disengagement were also evident in eight fraud cases, in which followers justified their involvement in unethical behaviour as mere compliance with directives from their superiors (see cases 4, 6, 7, 9, 10, 13, 17, 19 in Table 2). The followers were of the view that they could not be blamed for their own unethical behaviour given the position they occupied within the organisational hierarchy. Some individuals have strong self-regulatory capabilities that make it less likely for them to displace moral responsibility for their actions onto other individuals (Beu and Buckley, 2004).

The notions of moral disengagement and displacement of moral responsibility are closely related. These two elements are critical in the development of an integrative model of employee criminal behaviour in the business context. They provide knowledge of the psychosocial mechanisms that influence or compel individuals in an organisational context to disregard their morality and subsequently engage in criminal activity.

7.4.5 Cost–benefit thinking

Further knowledge of the psychosocial processes involved in the production of employee criminal behaviour is provided by the rational choice theory explain cost-benefit thinking (Murphy and Dacin, 2011). This perspective holds that individuals make discrete decisions to engage in wrongdoing (Palmer and Maher, 2006). They consciously or unconsciously calculate the costs (risks) and benefits (rewards) associated with wrongdoing and engage in wrongdoing if the benefits associated with it outweigh the costs involved. Committing crime, therefore, helps individuals achieve selfish interests (e.g., financial gain) (Murphy and Dacin, 2011). Also, individuals engage in wrongdoing if it coincides with their internally-held values, beliefs, and norms (Palmer and Maher, 2006). Based on this perspective, criminal behaviour fundamentally involves opportunity, incentive, rationalisation, and choice (Murphy and Dacin, 2011; Free and Murphy, 2015) and when presented with an opportunity or incentive to commit criminal behaviour (e.g. weak or non-existent internal or external controls), individuals rationalise the behaviour and actively choose to engage in it.

Business organisations make also decisions within cost-benefit framework by weighing the associated benefits against the associated costs (O’Cornor, 2003). Businesses may have strong inclination to conduct bribery or other unethical behaviour when the potential benefit is larger than monetary and reputational costs. It is to observe, especially if perceived cost is low due to the unlikelihood of being punished.

7.4.6 Rationalisation of criminal behaviour

As my findings revealed, even though rationalisation is not always observable and identifiable in practice, it is a particularly useful cognitive and psychological mechanism for understanding employee criminal behaviour in business organisations.

It denotes mental processes through which both retrospective and prospective deviant behaviour is justified (Zyglidopoulos and Fleming, 2008; MacGregor and Stuebs, 2014). An individual adjusts his/her perception of the behaviour in question, and the behaviour consequently becomes less problematic for the perpetrator. Criminal conduct is justified to make it normal and acceptable to those involved in perpetrating it (Zyglidopoulos and Fleming, 2008; Ruggiero, 2015c). As described by cognitive dissonance theory, individuals have a tendency to reduce dissonance when they experience it (Lowell, 2012). When individuals commit an immoral act, their innate sense of morality causes them to justify the act to reduce their responsibility for it. Additionally, individuals rationalise unethical behaviour to avoid or minimise the negative affect associated with such behaviour (Murphy and Dacin, 2011). From a psychological perspective, individuals generally feel guilt after committing a criminal or unlawful act, especially if it contradicts their ethical values (Murphy and Dacin, 2011). In this regard, rationalising wrongdoing is often a helpful way of overcoming this negative psychological outcome – it helps in avoiding or minimising the guilt associated with wrongdoing (MacGregor and Stuebs, 2014). As a result, perpetrators of the problematic behaviour start to perceive it as allowable or understandable (Murphy and Dacin, 2011). Eventually, the illegal behaviour becomes a routine (Ruggiero, 2015a). Even so, rationalising criminal behaviour does not necessarily mean that the perpetrator abandons their overall moral identity; rather, the individual justifies the behaviour whilst maintaining their general attitude towards the behaviour (Murphy and Dacin, 2011).

Individuals may use different ways to rationalise criminal behaviour (Beu and Buckley, 2004). For instance, individuals engaging in fraudulent behaviour may morally justify their actions by arguing that they committed fraud to help the organisation, as a sign of loyalty to the organisation, or due to lack of other choices (Murphy and Dacin, 2011). Individuals may also justify a crime (e.g. falsifying financial statements) by arguing that it occurs everywhere and is, therefore, excusable (Free and Murphy, 2015). In 2002, an accounting scandal was uncovered at HealthSouth Corporation, a US-based healthcare provider (Murphy and Dacin, 2011). The firm's former CEO, Richard Scrushy, reportedly declared that the firm falsified financial statements simply because all firms did so. The tendency to excuse a crime merely because it is deemed to occur elsewhere leads to an intriguing conclusion: perpetrators of criminal behaviour displace responsibility not only onto their superiors, but also onto societal or external forces. Other ways of rationalising crime include advantageous comparison (seeing

one's criminal behaviour as less bad than others'), use of euphemistic language (describing wrongdoing in a positive manner), denying harm or victimhood, blaming or dehumanising the victim, appealing to higher loyalties, and misconstruing the negative outcomes associated with crime (Ashforth and Anand, 2003; Beu and Buckley, 2004; Hinrichs, 2007; Zyglidopoulos and Fleming, 2008).

Rationalising criminal behaviour also includes neutralisation (Pershing, 2003; Palmer and Maher, 2006; Heath, 2008; Ruggiero, 2015a). Neutralisation involves, among other processes, denial of responsibility, ignoring victims, postponing the guilt associated with wrongdoing, and self-cleansing (Beu and Buckley, 2004; Murphy and Dacin, 2011). Pershing's (2003) case study of the U.S. Naval Academy, involving both surveys and semi-structured interviews, found that midshipmen used neutralisation techniques to justify the violation of work norms. Neutralisation is especially prevalent in the corporate context (Chen, 2010; Lowell, 2012; Whyte, 2016). Whyte (2016) used Toyota, Fiat Chrysler, and Volkswagen as case studies to illustrate the prevalence of neutralisation techniques in the automobile industry. In 2009, acceleration problems in Toyota's vehicles led to the recall of more than 20 million vehicles globally. In 2011, Fiat Chrysler gained media attention following a series of fatal explosions in some of its jeeps. Despite evident safety problems in some of their vehicles, Fiat Chrysler and Toyota issued deceptive statements regarding the safety issues in an effort to deceive the public. Volkswagen became the subject of media coverage in 2015 after the discovery of its involvement in emissions fraud. In the three cases, there was knowledge of wrongdoing, but the firms attempted to neutralise their wrongdoing by denying responsibility (Whyte, 2016).

Self-cleansing may be seen as self-affirmation or self-justification, i.e. perceiving oneself as a good person following the commission of a wrongful act (Lowell, 2012). This may be achieved, for example, by contributing money gained from criminal activities to charity (Murphy and Dacin, 2011). This is a common practice among high-level individuals in the business world, especially CEOs and directors. WorldCom's former CEO Bernard Ebbers, for example, reportedly contributed approximately US\$100 million to charitable causes over a period of 10 years (Chen, 2010). Equally, Enron's former CEO, Kenneth Lay, contributed US\$10 million to charity between 2001 and 2005 (Chen, 2010). Such acts help perpetrators avoid or reduce negative affect. Once neutralisation occurs, individuals continue engaging in criminal behaviour, perceiving the behaviour as normal and acceptable (Zyglidopoulos and Fleming, 2008). This means that individuals continue their criminal behaviour without thinking about their actions or experiencing guilt. During his trial, Tyco's CEO, Dennis Koslowski, maintained that he had not considered his behaviour while committing fraud (Murphy and Dacin, 2011). This is a typical example of how individuals may neutralise criminal behaviour to avoid or reduce negative affect.

The rational choice perspectives suggest that individuals who commit crime may be aware that they are committing unlawful behaviour. Following from Zyglidopoulos and Fleming's (2008) continuum of destructiveness, individuals may be active rationalisers of crime, i.e. individuals may be aware that their behaviour is unethical, but they rationalise the behaviour to avoid the subsequent negative affect (Beu and Buckley, 2004; Ruggiero, 2015a).

In the cases related to collective fraud listed in Table 2, there is a possibility that employees were aware that their superiors' directives were illegal, but they rationalised their actions to avoid guilt, and perhaps as a way of demonstrating their loyalty. However, as mentioned already, crimes committed in organisational settings are rarely the work of individuals; they are most frequently perpetrated by a network of employees and leaders.

7.5 Summary

Criminogenic forces, processes and conditions operating at the micro-, meso-, and macro-levels influence illegal, unethical or harmful conduct by facilitating illegal behaviour, compelling and or seducing business organisations and their members into criminality. Some companies and individuals are strong enough to resist the influence of the criminogenesis and others are not since their 'immune systems and defence mechanisms' are not resistant enough to repel criminogenic influence.

It is a matter of fact that individuals (micro) and business organisations (meso) alike do not operate in a vacuum (DeKeseredy *et al.*, 2015, 178). Their desires, motives and means used to achieve their goals are heavily influenced and shaped by the business environment (macro) in which they act (Giddens, 1979, 1984). In this respect, the environment is a powerful domain, influencing the behaviour of individuals and the social groups such as business organisations to which they belong to (Alexander *et al.*, 1987). At the same time, the environment is enacted and empowered by business organisational and its members who decide what they will pay attention to (Weick, 1979, 1995). Therefore, the macro-meso-micro relationship between the environment arena and its members (organisations and individuals) is mutually reinforcing. Considering this complex and mutually supportive relationship between three domains, the anti-fraud measures are bound to comprehensively consider all three levels of analysis in order to be effective in reduction of criminal activities.

My empirical observations confirms that in a real life context, criminogenesis from different levels can intertwine and in some sense 'collude' to support fraud (refer to column 10 in Table 2). As I outlined previously, more than one single criminogenic domain was identified in nearly half of 21 fraud cases responsible for causing fraudulent behaviour. Therefore, it is challenging in such instances to decide in practice which level of criminogenesis (micro, meso, or macro) was the key cause for identified misbehaviour.

8 Analysis of Effectiveness of Anti-Fraud measures in practice

8.1 Introduction

Despite adopting several measures — stricter regulations, fraud risk assessments, employing compliance officers, ethical codes of conduct, whistleblowing arrangements, and disciplinary actions — to deal with corporate crime, business organisations have still not eradicated the problem (Bartlett & Preston, 2000; Holtfreter, 2005; Dion, 2008; Michel, 2008; Davis & Pesch, 2013). This raises a fundamental question: why have business organisations failed to effectively deter corporate crime? Answering this question is vital, given the severe economic and social costs associated with corporate crime (Hansen, 2009; Davis & Pesch, 2013; Yeager, 2016).

My professional experiences and review of literature on corporate crime suggests that conventional anti-fraud measures are ineffective because they do not address the root cause of corporate crime (Alvesalo, Tombs, Virta & Whyte, 2006; Michel, 2008; Davis & Pesch, 2013).

Business organisations seemingly do not understand the origin of corporate crime and what they are dealing with in terms of fraud prevention (Michel, 2008). More specifically, firms' prevention efforts fail to adequately consider the implications of organisational conditions, e.g. organisational structure and culture, on corporate crime. The lack of a holistic approach to combat corporate crime renders fraud deterrence efforts largely ineffective. The issue is further compounded by factors such as weak formulation and enforcement of codes of conduct, poor internal controls, and a lack of comprehensive employee training on criminogenic conditions, processes and forces.

8.2 Overview of traditional anti-fraud measures in business organisations

Business organisations adopt a range of measures to prevent, detect, and fully investigate criminal activities that are regarded as anti-fraud measures in practice (ACFE, 2016). Fraud-prevention measures in companies, according to Holtfreter (2005), fall in two broad categories: pre-employment measures; and measures undertaken during employment. Lange's (2008) typology of crime-control measures distinguishes between outcome-oriented and process-oriented measures. Outcome-oriented measures are measures instituted to eliminate emerging criminal activity or to change current behaviour by stipulating future rewards for good behaviour or future penalties for undesirable behaviour. Unlike outcome-oriented measures, process-oriented measures are measures undertaken before and during the execution of work to ensure individuals act in the interest of the organisation. Lange's (2008) concept of process-oriented measures resonates with Holtfreter's (2005) categorisation of crime-prevention measures undertaken during employment.

The following section discusses traditional practices undertaken by firms to deter, detect, and investigate criminal activities.

8.2.1 Employee background checks

Prior to hiring employees, companies usually undertake comprehensive background checks to verify the integrity of potential employees. Besides face-to-face or telephone interviews, the vetting may entail scrutinising the applicant's employment history and even criminal history (Holtfreter, 2005; ACFE, 2016). Considering employment and criminal history helps employers determine whether a potential employee has been involved in unethical conduct or fraudulent activities in the past. Employers vet employees to reduce the risk that unsuitable individuals join the organisation, thereby avoiding or minimising the possibility of criminal behaviour (Schnatterly, 2003; Button & Brooks, 2009). Virtuous individuals are crucial building blocks of organisational success. Based on agency theory, such individuals might make good and reliable employees, consequently reducing the cost of monitoring them (Beu & Buckley, 2004). Pre-employment screening, however, does not assure that criminal behaviour will not occur. The analysis of individual behaviour in the past, without considering situational settings, does not necessarily predict individual conduct in the future. The validity of employee background checks might be limited in terms of future employees' behaviour since no two business organisations are alike in terms of working environment, culture, and structure, all of which significantly influence individual behaviour.

8.2.2 Monitoring and review processes

Firms undertake additional crime-prevention measures during employment. Regular monitoring of employee and managerial behaviour is another common practice in preventing corporate crime

(Holtfreter, 2005; ACFE, 2016). Lange (2008) explained that ongoing monitoring of employee and managerial conduct is a process-oriented crime-control measure to ensure that all employees, and especially senior managers, always act in the interests of firm's owners. Monitoring of staff behaviour can be achieved by regularly requiring employees to disclose any potential conflict of interests and to participate in compliance training (Lange, 2008). Reviewing staff behaviour during employment may help in identifying signs of fraudulent behaviour.

8.2.3 Codes of conduct

Codes of conduct — formal documents that prescribe the norm for present and future ethical behaviour in an organisation — are conspicuously present in business organisations (Kaptein & Schwartz, 2007). Organisations use codes of conduct as formalised controls of employee behaviour (Beu & Buckley, 2004). Without behavioural control, organisations may not achieve their goals and objectives. A code of conduct stipulates organisationally acceptable and unacceptable conduct as well as processes for enforcing ethical conduct, in effect defining the limits of employee behaviour. In accordance with the Sarbanes-Oxley Act (SOX), a sweeping regulation enacted in 2002 in the wake of the Enron Scandal, a code of conduct is designed to promote three things: ethical and professional conduct; truthful, understandable, and timely disclosure of financial information; and adherence to pertinent government laws and regulations (Holder-Webb & Cohen, 2012).

Whereas research on the effectiveness of codes of conduct in deterring criminal behaviour in business organisations offers mixed findings, there is considerable evidence that a code of conduct promotes ethical behaviour, increases the reporting of ethical violations, enhances the firm's reputation, and reduces regulatory fines (Stucke, 2014). By stipulating guidelines on ethical behaviour, a code of conduct potentially minimises criminal behaviour, thereby avoiding or decreasing the possibility of regulatory fines. However, one of the often-discussed weaknesses of such codes is the lack of clarity over how employees, following the ethical requirements for conduct, should be encouraged to take responsibility for their own actions (Kaptein & Schwartz, 2007).

8.2.4 Anti-fraud and compliance training for employees

Many organisations have fraud-awareness programs intended to familiarise employees with forms of fraud and counter-fraud methods (Button & Brooks, 2009). Fraud-awareness programs are implemented as part of creating an anti-fraud culture. Such awareness plays an essential role in fraud prevention (Tiffen, 2015). Compliance training aims to enhance employee awareness of ethical issues, the organisation's code of conduct, and penalties for non-compliance with ethical standards (Dion, 2008). Many organisations use compliance training to augment crime-prevention efforts (Bartlett & Preston, 2000; Davis & Pesch, 2013).

However, much anti-fraud and compliance training fails to achieve its aspirational goals. They do not address criminogenic processes in an organisational context, such as moral disengagement, the normalisation of deviance, rationalisation and normalisation techniques, and the diffusion of responsibility, rational choice, and cost–benefit thinking. In practice, anti-fraud and compliance training predominantly deals with ‘do’s and don’ts’ in the business context and focus on an explanation of the taxonomy of fraudulent activities: what is fraud, how fraud can be identified; what suspicious acts should be reported; etc. As a result, the training does not fully address organisational and individual criminogenesis, since it fails to explain the presence and effect of criminogenic factors and forces within organisations.

Largely, employees are given no advice on how to deal with the pressure of social consensus and groupthink, management by obedience, and managerial expectations of unquestioning loyalty.

8.2.5 Compliance officers and anti-fraud managers

Business organisations also use ethics officers as a means of thwarting criminal activity (Richards, 2008). Also referred to as compliance officers, ethics officers evaluate potentially unethical behaviour and administer the necessary sanctions (Beu & Buckley, 2004). Other roles of compliance officers include championing ethical topics in organisations, providing ethical guidelines to employees, developing codes of conduct, and setting up ethics helplines (Murphy, 2011). Anti-fraud managers are accredited professionals involved in countering fraud. Their work encompasses detecting fraud, managing fraud investigations, raising fraud awareness, preventing fraud, and enforcing an anti-fraud culture (Riether, 2012).

However, in many organisations, compliance officers and anti-fraud personnel report to the senior management. This means they are not autonomous. A lack of independence on the part of compliance officers and anti-fraud personnel may undermine their objectivity in carrying out their duties and accessing the required information and resources (Tiffen, 2015). This may limit the effectiveness of anti-fraud efforts championed by anti-fraud and compliance personnel.

8.2.6 Internal auditing

Auditing is a common method for deterring fraud in business organisations by identifying irregularities. Performed by internal auditors, audits are conducted either as routine procedures or in response to suspicious activity in an organisation (Holtfreter, 2005). Internal auditing has become commonplace in recent decades, with firms seeking to enhance their crime-prevention efforts. The internal-audit function is specifically concerned with identifying and assessing fraud risks (Riether, 2012). This is achieved by using sophisticated technological techniques, including data mining, data analytics, and

computer-assisted audits (Westhausen, 2017). The auditor analyses aspects such as administrative controls, anonymous reporting systems, and the management-review processes.

The drawback of relying on auditing is that the quality of the audits hinges on the professional background and expertise of the auditors. To identify sophisticated fraudulent schemes, the auditors must have relevant knowledge and expertise that must often be gained through extensive training.

8.2.7 Fraud risk assessment

Business organisations also utilise fraud risk assessment as a crime-prevention method. Like standard risk-management practices, regular fraud risk assessment enables an organisation to identify high-risk areas that require special attention regarding anti-fraud measures (Button & Brooks, 2009). Corrective actions can then be undertaken to make the organisation more fraud-proof. Fraud risk assessment is premised on the recognition that every organisation is vulnerable to fraud, the occurrence of which could undermine the achievement of organisational goals and objectives (Cotton, Johnigan & Givarz, 2016). The assessment serves as a basis for developing anti-fraud guidelines and policies, designing and implementing detective and preventive processes, performing fraud-related investigations, and monitoring the overall fraud risk-management program (Doody, 2008; ACFE, 2017). Fraud risk assessment largely addresses the opportunities for crime and highlights potential control weaknesses. However, fraud risk assessment predominantly focuses on the assessment of controls in the entries' value chain of the organisation (e.g. procurement, marketing, sales, distribution, warehousing, etc.). The criminogenic factors, conditions, forces, and processes at individual, organisational and environmental levels usually remain out of scope for fraud risk assessment.

8.2.8 Whistleblowing programs

Whistleblowing arrangements are initiatives through which employees and external parties can anonymously report fraudulent activity committed by internal or external offenders (Holtfreter, 2005). It involves "the disclosure by organisational members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers to persons within the organisation that may be able to effect action" (Near & Miceli, 1985, p. 4). Anonymity should help to avoid retaliation against the whistle-blower. Companies encourage individuals to report criminal behaviour in the workplace. With the confidentiality offered by whistleblowing programs, the perception that subordinates have limited choice is undermined. However, the effectiveness of whistleblowing programs is often weakened by the fear of reprisal, retaliation, and adverse repercussions (Holtfreter, 2005). Therefore, whistleblowing requires courage and strength of character.

8.3 Challenges in reducing corporate crime

Irresponsible business activities are undesirable to society and unfavourable to humanity, as they violate common ethical and social standards. Yet, it appears that the irresponsible corporation cannot be easily controlled by existing means. From a legal standpoint, this assertion is true in various countries. Paterno (2016) reports, for example, how various legislative actions at both the federal and state levels in the United States were launched to steer corporations towards more involvement in corporate social responsibility. The federal government called for the promulgation of specialised disclosure rules to ensure that corporations fully reveal their activities and their impacts on humanity. At the same time, various states around the USA legislated benefit corporation statutes, with the intention of requiring corporate directors to ensure public good. The example of the United States shows that many legal frameworks are inadequate to tame the irresponsibility of many corporations, since they can easily find loopholes in the statutes. Armstrong & Green (2012) argue that the existence of tort laws provide some protection against corporate irresponsibility. However, the authors also note that despite the existence of such laws, as well as well-outlined codes of ethics, some managers still behave in an irresponsible manner while pursuing the profitability of their corporations. While legal and regulatory frameworks can partially reduce the acts of corporate irresponsibility, they cannot entirely restrict the irresponsible actions of some managers.

From a corporate governance perspective, there are principles emphasising how culprits can be held accountable for the crimes committed on behalf of companies (Brickey, 2012). In their policies, many business organisations claim to be accountable to their stakeholders in case criminal acts are committed by employees, managers or directors on their behalf. However, as de Souza *et al.* (2017) report, a high number of corporations which are involved in crimes and other socially unacceptable criminal activities often do not live up to the billing in their policy statements. The authors find a lot of inconsistency, indifference, and contradiction on the part of the corporations when they are caught behaving irresponsibly (de Souza *et al.*, 2017). The managers and directors, who are involved in the criminal activities, dissociate themselves from the harmful actions and absolve themselves from blame while the shareholders are impersonal and not involved in the running of the organisation (Brockman, 2016). The indifference and inconsistency on the part of managers and directors when their corporations are involved in corporate crime further underlines how difficult it is to curb irresponsible corporations.

Apart from the corporations' irresponsibility, indifference, and inconsistency as far as their harmful and criminal behaviour is concerned, there is a perception of injustice in the criminal legal system, because it does not sufficiently enforce criminal law when the harmful and criminal actions are

perpetrated by corporations. This lack of enforcement is a major concern for criminologists. Armstrong & Green (2012) highlight that the legal framework does not adequately prevent corporations and their managers from committing harmful and criminal actions, while Paterno (2016) reports that many pieces of legislation are insufficient to protect consumers and stakeholders from corporate crimes. From a criminological perspective, many corporations that are engaged in corporate crimes display indifference to the crimes, and the legal systems in place do not bring them to book for their actions. As a result, in some instances, there is a strong perception of injustice as far as corporate crime is concerned.

From a political economy standpoint, taming corporate irresponsibility appears also to be a tall order. Banerjee *et al.* (2008) review corporate social responsibility from the viewpoint of political economy and argue that the nature of the relationships between governments and companies produce specific forms of social arrangements. Political economy scholars presume that corporations belong to the category of influential groups that seek to produce and sustain a system of domination (Banerjee *et al.*, 2008). Corporations have grown in strength and continue to exert political pressure on the state with regards to the enactment of changes to social and environmental regulations (Frynas & Stephens, 2015). Through their concerted efforts and lobbying, registration as members of various advisory committees, and membership of traditional political channels, corporations are increasingly influential in policymaking processes and the development of regulations on social and environmental issues (Frynas & Stephens, 2015). This degree of influence on important political and advisory bodies gives corporations a safety net against legal actions when they face charges of social irresponsibility. Furthermore, corporations often find themselves having to choose between being socially responsible and being profitable, which makes irresponsibility a highly likely occurrence (Sandoval, 2015). Consequently, the political requirement for them to be socially responsible may be hampered by their quest for success in business and profitability. Thus, Sandoval (2015) proposes the turning of corporate social responsibility into a responsibility to socialise corporations through political, legal, and social systems. Accordingly, from a political economy angle, it is still difficult to tame the irresponsible corporations owing to their influence on the political forces.

8.4 Why anti-fraud measures are ineffective

8.4.1 Failure to address the root cause of corporate crime

Anti-fraud measures fail largely because they are ineffective mostly in their design and performance and do not fully address the root cause of corporate crime. The latter was highlighted by David and Pesch (2013), who observed that anti-fraud measures do not pay adequate attention to the social and psychological processes underlying criminal conduct in business organisations. Inattention to the root cause of crime means that anti-fraud measures are often reactive and situational (Hansen, 2009), i.e. crime-prevention efforts are one-off interventions, often with little or no regard for the underlying social processes in an organisational context. A reactive approach to fraud in the business context diminishes the significance of environmental, organisational and individual factors that contribute to criminal behaviour (Alvesalo *et al.*, 2006). Failure to address the underlying origin of criminal behaviour points to the fact that business organisations may not have a clear understanding of the nature of fraud and how it evolves in organisational settings.

There are several criminogenic factors, circumstances, forces, and processes within the organisational environment that inherently coerce, pressure, or induce otherwise law-abiding and morally upright individuals to engage in criminal behaviour (Gobert & Punch, 2003; Needleman & Needleman, 1979). However, the conventional anti-fraud efforts fail to effectively address organisational culture and structure, groupthink and hierarchical elements, authoritative leadership and unquestioning obedience to the management, unrealistic business goals, and a high degree of competitiveness in workplace. Moreover, macro-level factors, such as industry characteristics and the regulatory and political environment are usually completely ignored by the AFM (Dion, 2008).

At Siemens, for example, bribery was institutionalised to the extent that it became part of the firm's business model (Davis & Pesch, 2013). In such an environment, ethically conscious individuals may be more inclined to engage in illegal behaviour. Differential association theory that individuals learn criminal attitude and behaviour by associating with deviant individuals supports this conclusion (Hansen, 2009). This suggests that criminal behaviour in business organisations tends to mirror group values as opposed to personal values. Social relationships lead to cohesion, cooperation, empathy, trust, emotional bonds, and reciprocity, which may facilitate the acquisition of illegal and unethical behaviour (Beu & Buckley, 2004). Since anti-fraud measures pay little or no attention to the criminogenic elements of the corporate environment, criminal behaviour remains prevalent in business organisations. Without measures targeting the root cause of corporate crime, interventions will remain reactive and situational (Hansen, 2009).

Corporate crime and fraud in businesses are a multidimensional phenomenon encompassing individual, organisational and environmental levels. Failure to consider the connection between those levels and their mutual influence in anti-fraud strategies diminishes the effectiveness of crime deterrence measures (Beu & Buckley, 2004).

In summary, anti-fraud measures could be more effective if they addressed environmental, organisational and individual criminogenesis. This would allow the introduction of specific measures to target the conditions, factors, forces, and processes that facilitate and compel corporate crime perpetrated in and by business organisations.

8.4.2 Codes of conduct - poor formulation, communication, and enforcement

Many corporate crimes are attributable to poor governance and ethical failures as opposed to problems specific to a firm (Holder-Webb & Cohen, 2012). This particularly relates to how ethical codes of conduct are formulated and enforced. SOX regulations require firms to adopt their own, unique codes of conduct. However, the content of most ethical guidelines does not meet the requirements of SOX. In their study of 75 American firms in five different industries, Holder-Webb and Cohen (2012) established a worrying similarity between ethical codes in terms of language and structure. More specifically, the content of codes was generic in nature and was characterised by vague language. Failure or reluctance to formulate a comprehensive, firm-specific code of conduct may be a sign that organisational leaders are reluctant to put too much effort into promoting ethical behaviour in the organisation.

Vague codes of conduct minimise their effectiveness in restricting criminal behaviour and make them less effective in encouraging ethical behaviour in organisations. While variance in ethical codes of conduct across organisations would not necessarily mean that criminal behaviour would not occur, having unique ethical guidelines could be an indication that an organisation has taken the time to formulate its own firm-specific code of conduct rather than copying and pasting from other peers. This sends a strong message that an organisation is genuinely committed to ethical compliance.

Although many organisations have a code of conduct, most of those for whom it is intended do not comply with it, mainly because they believe they already know the right thing to do (Kaptein & Schwartz, 2007). Firms that have collapsed due to fraud, such as Enron, obviously had a code of ethics, but the code failed to dissuade fraudulent activity (Michel, 2008). In fact, the perpetrators were able to sustain their criminal activities for several years without detection. This is an indication that the presence of a code of ethical conduct in an organisation does not necessarily ensure ethical conduct (Hansen, 2009). There is also a surprising lack of awareness of ethical guidelines on the part of

employees (PwC, 2016; Ernst & Young, 2016). According to Bartlett and Preston (2000), employees often have little or no knowledge of their organisation's ethical guidelines and code of conduct, and if they do, they pay little attention to them. This lack of awareness of ethical obligations is one of the reasons why many individuals accused of committing crime are quick to claim they did not know their action was illegal or unethical (Richards, 2008).

For many business organisations, the priority is profit and efficiency (Michel, 2008). The obsession with success, profit, or personal gain causes individuals, and even entire companies, to compromise quality control, ignore consumer safety concerns, and deceive customers and shareholders (Beu & Buckley, 2004). Ford, an American automobile manufacturer, offers a classic example (Alvesalo *et al.*, 2006). In the late 1970s, it emerged that one of Ford's car models, the Pinto, had considerable flaws in the design of its fuel tank, which could lead to catastrophic fires following a rear-end collision. Despite knowledge of the safety concerns, Ford initially failed to recall the car, with profit concerns overriding consumer safety (Beu & Buckley, 2004).

A further plausible reason for employees being unaware of ethical guidelines is inadequate education and training on ethical guidelines: many organisations do not invest enough time and resources in educating employees on ethical codes of conduct and ethical decision making (Dion, 2008). Employees' lack of awareness of ethical issues also stems from the way organisations enforce their codes of conduct. Stansbury and Barry (2007) stated that how ethical guidelines are enforced may decrease the extent to which employees exercise their individual morality in ethical decision-making situations. Firms apportion a significant amount of time, effort, and resources in formulating and implementing profit-maximisation initiatives. Efficiency, productivity, and profitability goals are strategically formulated and clearly communicated to employees, often stipulating rewards and punishments for achieving or not achieving them. However, a similar level of commitment is not replicated in formulating and communicating ethical initiatives (Bartlett & Preston, 2000). In most cases, organisations do not show robust and sustainable commitment in formulating ethical guidelines, resulting in vague and nebulous codes of conduct (Holder-Webb & Cohen, 2012). These vague guidelines are articulated in a somewhat less sophisticated manner and are not accompanied by stringent enforcement (Bartlett & Preston, 2000).

Circulating and communicating ethical guidelines but failing to enforce them shows business organisations to be hypocritical: the guidelines are merely "window dressing" to portray an organisation as ethical to regulators and the public (Bartlett & Preston, 2000). They are usually superficial proclamations of an organisation's commitment to ethical behaviour. In other words, there is often a gap between the content of codes of conduct and real practice. Many organisations primarily

emphasise profitability, with little or no regard to the ethicality of the means utilised to achieve profitability. This usually creates an atmosphere in which profitability takes precedence over ethical concerns.

As a result, ethical guidelines and codes of conduct end up being statements merely for managing impressions rather than something that organisations take seriously. The poor design of codes of conduct may make organisations vulnerable to ethical opportunists: failure to enforce ethical guidelines may incentivise individuals to take advantage of the loopholes for the benefit of themselves or the organisation.

8.5 Enhancing anti-fraud measures across macro-meso-micro levels

Given the far-reaching consequences of corporate crime, it is imperative for business organisations to improve their anti-fraud practices. Without rethinking anti-fraud measures, corporate crime is likely to remain a challenge for business organisations. Anti-fraud measures can be enhanced at the individual, organisational and environmental level. The focus of the anti-fraud management has been highlighted in Figure 8 demonstrating the model of criminogenesis.

I believe that the following activities would enhance the effectiveness of the anti-fraud efforts in practice.

8.5.1 Training employees and raising awareness in businesses.

Training of employees is an important aspect of enforcing ethical values and principles. Through education and training, employees at all levels of the organisation should be familiarised with the origin, forms, and consequences of corporate crime (Tiffen, 2015). Furthermore, the staff should be made aware on a regular basis about the range of criminogenesis at the micro-, meso-, macro-levels and what inherent processes, forces and conditions are present in organisational settings that might facilitate criminal and unethical behaviour. Without general understanding of the causes of crime in the organisational context, the actions against illegal and unethical conduct remain shallow and less effective as they address rather the symptoms and not the root-cause of the problem.

Employees should also be extensively familiarised with the organisation's code of conduct. Comprehensive ethics education programs are essential for reinforcing employees' understanding of organisational values and the company's expectations in terms of ethical behaviour (Bartlett & Preston, 2000). Ensuring everyone reads and understands ethical guidelines is as important as relaying them, hence the importance of ethics training. Following ethics training, employees should understand that they will be held accountable for their actions: they learn the value of individual accountability, self-control, and ethical self-governance (Beu & Buckley, 2004). When individuals clearly understand their obligations, they are more likely to comply with the company's requirements (Richards, 2008).

Training, however, may not be effective if it does not focus on other areas, such as moral development and personality. Through training, organisations should help employees enhance their moral development and limit deviant behaviour, such as aggression and Machiavellianism (Beu & Buckley, 2004). It is crucial to note that employee training should not be a one-time event, but an ongoing educational process (Hansen, 2009; Tiffen, 2015). Employees should incorporate the lessons learned into their routine practices and decision-making processes, so that ethical behaviour becomes part of organisational culture.

Most importantly is that the educational efforts help employees to enhance their **self-control capabilities and strength their self-concept**. The theory of self-control posits that individuals with little or no self-regulation have a greater predisposition to commit crime than individuals with higher degree of self-regulation (Hansen, 2009). There are individuals who naturally have a strong internal moral compass that guides them through decision making process but this can be learned and developed by every employee. The business should learn their employees across the hierarchy to give the peers, colleagues, superiors and subordinates a constructive feedback in case of any ethical dilemmas or constrains or in the course of any criminogenic processes and circumstances (e.g. groupthink, rationalisation process, collective reasoning, management by obedience).

Special training is even more important for compliance officers, internal auditors, and anti-fraud personnel. To effectively prevent and detect fraudulent activities, they must have the necessary skills and expertise (Riether, 2012; Tiffen, 2015). Corporate crimes are perpetrated by highly skilled individuals using complex techniques. This makes it necessary for anti-fraud practitioners to be “one step ahead.” They must possess the right skills and expertise to identify, counter and prevent fraudulent activities. They must have knowledge of fraud risks and indicators, sociological processes taking place in organisational settings, criminalisation processes and criminogenic forces, emerging fraud techniques, and how to develop and implement counter-fraud policies (Michel, 2008; Tiffen, 2015). Given adequate expertise and autonomy, compliance officers and anti-fraud managers can be more effective in fulfilling their duties.

8.5.2 Hiring process and individual traits of employees

The profile of individuals that firms recruit may have significant implications for crime prevention (Button & Brooks, 2009). It is imperative for organisations to proactively look out for individuals with a high degree of integrity and ethical and moral principles (Greenlee *et al.*, 2007; Ernst & Young, 2016). Literature suggests that individual characteristics such as personality and moral development may predict future behaviour (Beu & Buckley, 2004). Attention to these characteristics in employee selection could be useful for crime-control efforts. Conducting integrity tests during selection and assessing personality traits such as aggression, Machiavellianism, hostility, locus of control, and moral intensity may be helpful in determining an individual's propensity to commit crime (Beu & Buckley, 2004).

Business organisations need individuals with both integrity and critical-thinking capabilities (Bloch & Spataro, 2014). The need for critical-thinking capabilities relates to the need to oppose group thinking, blind loyalty, and other social criminogenic processes in the organisational environment (Free & Murphy, 2015). These processes compel employees to comply with orders or requests without

questioning. Individuals with critical-thinking capabilities evaluate information received from others and respond to the information in an objective, impartial, rational, balanced, and ethical manner (Bloch & Spataro, 2014). They are analytical, inquisitive, confident, and truth-seeking (Bloch & Spataro, 2014). Rather than blindly conforming to unethical requests, critically-thinking individuals engage in constructive dissent and constructive conformity. Though individuals in the organisational environment may often have no choice in terms of questioning orders from their superiors, cultivating a culture of critical thinking may sustainably reduce the likelihood of criminal behaviour (Hansen, 2009).

8.5.3 Reducing structural complexity and fostering individual accountability

Effectively addressing structural criminogenesis can be achieved by addressing hierarchy in companies. Reducing hierarchy is vital given the role it plays in the perpetration of corporate crime (Button, Gee & Brooks, 2011). Hierarchy is strongly associated with the risk of blind conformity and crimes of obedience (Rodgers & Soderbom, 2015). Therefore, adjusting corporate structures, specifically regarding levels of control and formal communication channels, constitutes an instrumental step in addressing criminogenesis in businesses.

Instead of building up organisational hierarchy, companies might consider advancing a social system in which organisational members act in a manner that advances the common good as opposed to selfish interests (Bartlett & Preston, 2000). In such a system, individuals commit to shared values and beliefs and acknowledge that they cannot succeed if the social group and organisation fails (Beu & Buckley, 2004). When business organisations create such social system and communicate a shared moral conscience, they reduce the need for hierarchical control and foster individual accountability (Bartlett & Preston, 2000).

Furthermore, individual accountability at all levels of the organisation is a vital element of effective enforcement of ethical codes of conduct. As a social system, an organisation is characterised by common ethical norms (Rodgers & Soderbom, 2015). Given the presence of common ethical expectations, every individual in the social system should be held responsible for their behaviour (Alvesalo *et al.*, 2006). In most organisations, there are evident differences in how individuals at different organisational levels are held accountable. Compared to middle-level and higher-level employees, lower-level employees feel less obliged to blow the whistle (Beu & Buckley, 2004). Also, given their limited influence and their position in the organisation, lower-level employees are likely to conform to their superiors' expectations without question. Middle-level managers control the flow of information from lower-level employees to the top management, meaning they are better placed to engage in unethical behaviour (Beu & Buckley, 2004). However, middle-level managers are subject to

greater scrutiny than lower-level employees. At the top of the organisation, managers have immense influence and access to critical organisational resources, which presents greater opportunities for unethical conduct. Despite this, upper-level managers are subjected to less surveillance and controls than middle- and lower-level employees. Therefore, addressing structural complexity appears even more important to enhance the organisational transparency and foster individual accountability.

Thus, without an organisation-wide effort to create accountability at every organisational level, the enforcement of ethical behaviour may not succeed as expected. Organisations should particularly enforce individual accountability by ensuring that all employees are subjected to the same ethical standards and that punishments for ethical violation are administered equally.

8.5.4 Rewarding compliant behaviour

There are several ways in which corporate crime can be deterred at the individual and organisational levels. One way involves incorporating compliance and ethics-related elements into reward and incentive systems. Richards (2008) argued that employees should be incentivised for achieving not only high performance, but also high compliance with ethical standards and regulations. With incentives for compliance, individuals understand that they have an obligation to strictly comply with the organisation's code of conduct and external rules. Incentives for compliance shape, influence, and reinforce ethical behaviour, ultimately boosting the effectiveness of ethics programs (Murphy, 2011). Some studies have shown that failure to reward ethical compliance may lead to unethical conduct, further accentuating the significance of rewarding compliance (Kaptein, 2008).

Hansen (2009), however, opposed the idea of rewarding compliance, likening rewarding employees for not engaging in criminal behaviour to paying drug dealers for not selling drugs. It is not difficult to see the sense in this analogy. Compliance with laws, regulations, and ethical standards is an obligation that individuals must uphold, even in the absence of rewards. Since individuals are expected to do the right thing, rewarding them for doing what they are supposed to do is, arguably, inappropriate. Individuals who fail to do what is expected of them should simply be fired. Murphy (2011) countered this view, asserting that rewarding individuals for ethical compliance does not just involve rewarding individuals for not engaging in misconduct. Rather, incentives for ethical compliance recognise outstanding performance with respect to adherence to ethics. Hansen (2009), however, further criticised the practice of rewarding ethical compliance, asserting that the practice is premised on the assumption that firms do not pay executives adequately. This is rarely the case as most organisations offer executives an attractive salary and benefits package. Even so, rewarding compliance could have a significant impact in terms of advancing ethical and legal conduct.

The effect of rewarding compliance may be multiplied by rewarding whistle-blowers. Even though this is a very controversial topic, literature extensively supports the usefulness of rewarding whistle-blowers in enhancing fraud disclosure in firms (Lange, 2008; Kaptein, 2008; Murphy, 2011). Rewarding whistle-blowers incentivises individuals to come forward with their concerns and raises employees' awareness of ethical issues. In the United States, rewarding whistle-blowers has been particularly successful, especially in cases involving not only corporate crime but also fraud against the government (Murphy, 2011). Despite considerable differences between the legal and labour law across the world, this success offers valuable lessons for all business organisations. Nevertheless, there have been concerns that offering rewards for whistleblowing may not necessarily lead to positive outcomes, in large part due to employees' varying reactions to whistleblowing initiatives (Murphy, 2011). Whistleblowing tends to be more effective in an environment in which individuals are encouraged and supported to debate unethical issues or criticise wrongful actions (Kaptein, 2008). In such a setting, the suppression of negative information is less likely to occur, making it less difficult for unethical conduct to go unnoticed or unreported.

8.5.5 Sanctioning measures

With clearly stipulated penalties for undesirable behaviour, employees are more likely to avoid behaviour detrimental to the organisation. This agrees with the deterrence theory and the social learning theory: individuals are likely to avoid misconduct if observed or expected punishments are severe (Beu & Buckley, 2004). Kaptein (2008) supported this view, emphasising that individuals tend not to engage in unethical behaviour if the potential punishment outweighs the reward. When an organisation rewards unethical actions or fails to punish unethical actions, it sends a message to its members that unethical behaviour is acceptable. Therefore, firms must specify substantive penalties for committing crimes if criminal behaviour is to be more successfully deterred. Hansen (2009) pointed out that unethical and illegal behaviour should be strictly punished, even if it has benefited the organisation. Evident intolerance to criminal behaviour sends a strong message, not only to organisational members, but also to outsiders, positively enhancing the firm's reputation in terms of ethical conduct. It serves as an embodiment of stringent compliance with ethical standards and external rules, a deterrent of misconduct, and signals that an organisation holds offenders accountable for their behaviour (Beu & Buckley, 2004). By sanctioning criminal behaviour, an organisation can effectively eliminate the preconditions that lead individuals to act unethically (Alvesalo *et al.*, 2006). It is observed that the fear of informal sanctions (such as ejection from the professional community) and legal punishments (such as imprisonment) have the potential to deter individuals from committing crimes (Hansen, 2009).

8.5.6 Addressing corporate culture and governance

Management has a responsibility for not only communicating and enforcing ethical guidelines, but also discouraging egocentric, opportunistic, and self-serving behaviour (Yeager, 2016). Such behaviour is supported mostly by criminogenic aspects in the corporate environment, such as poor corporate culture, lack of prudent governance, setting unrealistic goals, and promoting individuals displaying Machiavellian behaviour (Dion, 2008). These factors greatly influence organisational culture and are significant antecedents of criminal behaviour. Lange (2008) shared this view, asserting that corporate culture with normative and coercive pressures emanating from the firm's social and regulatory setting affect and shape the behaviour of organisational members. This underscores the need to consider the range of criminogenesis in designing anti-fraud measures.

In his study based on feedback from 10 business ethics scholars, 50 management and ethics practitioners, and 15 management consultants, Kaptein (2008) illustrated the significance of minimising organisational conditions that induce and coerce employees to deviate from normative expectations. Attention to these circumstances is crucial for addressing criminogenic processes and forces such as moral disengagement, displacement of responsibility, blind loyalty, unquestioning compliance, coercive group thinking, rationalisation, and the normalisation of deviance (Free & Murphy, 2015, Vaughan, 2002a).

Another area of corporate culture that should be addressed relates to the goal-oriented nature of business organisations. It is widely acknowledged that setting ambitious goals and profit-oriented corporate cultures play a crucial role in encouraging corporate crime, with Enron, Tyco, and WorldCom being perfect examples (Dion, 2008; Rodgers & Soderbom, 2015). When large bonuses and incentives are tied to ambitious goals, especially in short-term goals, employees may go to extreme lengths to maximise performance by ignoring ethical and legal norms (Hansen, 2009). Shifting this cultural orientation towards ethical and legal business conduct may have positive implications for fraud prevention in business organisations. According to Bartlett and Preston (2000), excessive rewards for achieving high performance may induce individuals to engage in unethical or illegal behaviour. Thus, minimising such rewards can be effective in discouraging criminal behaviour. Consistent with this view, Richards (2008) reiterated that firms ought to exercise discretion in designing performance incentives, given their potential undesired outcomes. This, however, does not necessarily mean business organisations should be less concerned about goal achievement. Performance rewards or punishments are without a doubt vital for achieving organisational goals and objectives, but they should be awarded in a manner that does not encourage unethical and illegal behaviour. Performance incentives should

be designed in a way that maximises production without violating the applicable procedures, ethical standards, rules, and regulations.

Addressing the issue of the success-oriented and profit-maximising nature of companies suggests that effective crime deterrence calls for a change in the governance framework. This encompasses setting realistic goals supported with fair (but not excessive) incentives, offering adequate support to employees to achieve those objectives, making the workplace a friendly environment, providing favourable working conditions, motivating employees, instituting strong management controls, and ensuring equality in the enforcement of disciplinary rules (Greenlee *et al.*, 2007; Button & Brooks, 2009). It also entails ensuring that employees have adequate time, financial resources, equipment, and information to fulfil their responsibilities. In the absence of these conditions, the risk of criminal and unethical behaviour increases. Furthermore, considering general staff satisfaction, dissatisfied employees are more likely to engage in unethical conduct (Kaptein, 2008). Also, employees who work in a hostile workplace, may encounter difficulties in adhering to the organisation's normative expectations, consequently raising the possibility of unethical behaviour (Kaptein, 2008).

At the board level, a prudent governance system can support crime-prevention efforts. Improving board quality can also enhance accountability across the company and minimise the risk of fraud (Greenlee *et al.*, 2007). The board can contribute to crime reduction by modelling ethical behaviour, communicating ethical expectations, empowering employees, and actively responding to suspected fraud. Reinforcing systems for monitoring executives and strengthening audit committees is also a useful way for organisations to strengthen anti-fraud efforts (Schnatterly, 2003; Knauer & Lachmann, 2015). The cultivation of an anti-fraud culture can be achieved by establishing robust and transparent anti-fraud governance processes, developing and implementing measures for detecting and preventing fraud, and responding swiftly to fraud allegations (Doody, 2008).

As part of their business activities, companies consider the interests of shareholders in their strategies, policies, processes, and activities. To this end, Bartlett and Preston (2000) called for the implementation of the 'stakeholding' concept: the process of forging stronger ties between an organisation, its employees, and the broader community to institutionalise shared, collaborative, and participative decision making. 'Stakeholding' may be effective in deterring corporate crime, since it gives other stakeholders, such as employees, customers, and the community, a voice in the management of an organisation (Beu & Buckley, 2004). These stakeholders are significantly affected by the actions of an organisation, emphasising the need to consider their concerns when making organisational decisions. In accordance with agency theory (Beu & Buckley, 2004), 'stakeholding' would make it less likely for organisations to act in a manner that contradicts ethical and moral values.

8.5.7 Communication and enforcement of ethical guidelines

Effective and clear communication of ethical guidelines, policies, and procedures constitutes a critical step in the prevention of corporate crime. As mentioned earlier, organisations tend to project an image of ethical compliance while not effectively relaying their ethical values and principles to their employees. Organisations must stringently enforce and institutionalise their codes of conduct if the guidelines are to achieve the intended outcomes. Every member of the organisation should be extensively aware of what constitutes unethical behaviour and the organisation's stance on such behaviour (Tiffen, 2015). Organisations should ensure that their code of conduct is clearly communicated and freely available to all employees (Button & Brooks, 2009). To this end, communication may also involve familiarising employees with reports of successful fraud-related inquiries, sanctions applied, and preventive actions undertaken. Effective communication encourages transparency and visibility within an organisation, consequently making organisational members aware of ethical expectations and the consequences of their actions (Kaptein, 2008). This may contribute to crime prevention by increasing the perceived awareness of being caught and influencing employees to refrain from unethical behaviour.

8.5.8 Management commitment

Effective communication and enforcement of ethical guidelines less likely occur without the commitment of the top management (Tiffen, 2015). Top management must be personally committed to cultivating a culture in which ethical guidelines are communicated and strictly enforced. The role of top management is especially crucial given its role in setting the organisation's ethical climate (Sims, 2009). Organisational leaders are involved in reinforcing core organisational values and ensuring those values are strongly integrated into the organisation's systems, structures, policies, activities, and decision-making processes (Dion, 2008; Glebovskiy, 2019a). Leaders have significant influence over their subordinates' ethical behaviour: they are role-models in terms of compliance with ethical guidelines. They should, therefore, be at the forefront in terms of portraying desirable traits and conduct, such as transparency, accountability, honesty, mutual respect, fairness, selflessness, and moral courage (Dion, 2008). If leaders are personally committed to the organisation's code of conduct, similar behaviour is likely to be replicated by followers (Glebovskiy, 2019a). In an organisation in which the management is evidently committed to ethical behaviour, employees are likely to view the organisation's code of conduct as a document that requires stringent compliance, not a mere window dressing (Kaptein & Schwartz, 2007). In a similar vein, Kaptein (2008) stated that congruence between the actions of the management and the organisation's normative expectations reinforces compliance among employees. Ultimately, a culture in which employees act ethically is fostered.

Organisational leaders demonstrate commitment to ethical behaviour by devoting time and resources to the development of a firm-specific code of conduct and, most importantly, communicating and enforcing the code of conduct across the entire organisation (Holder-Webb & Cohen, 2012). Developing and communicating an explicit code of conduct is a key role of those in positions of authority in an organisation. Given their influence and control, organisational leaders should outline all illicit and unethical activities relevant to the organisation to avoid uncertainty with respect to behavioural expectations. They should emphasise normative behavioural expectations in a manner that is “concrete, comprehensive, and understandable” (Kaptein, 2008, p. 924). An explicitly defined and clearly articulated code of conduct, fully supported by management, informs potentially fraudulent individuals about actions the organisation considers unethical or unacceptable and their associated consequences (Davis & Pesch, 2013). Effectively, individuals with fraudulent motives are likely to consider their actions more carefully. In such an environment, it may be difficult for fraudsters to lure others into criminal activities.

8.5.9 Multidimensional internal controls

Greater attention to internal controls is especially important given that weak internal controls have been cited as major contributors of criminal behaviour in firms (ACFE, 2016). The traditional control activities are epitomised in segregation of duties, dual controls (the so-called “four-eyes-principle”), establishing limits for all significant matters (PwC, 2016; KPMG, 2016b).

However, addressing corporate crime requires a multidimensional approach. Lange (2008, p. 715) described a typology of four interlinked crime-control measures, with each category having two sub-categories:

- autonomy-reduction measures (concertive and bureaucratic controls);
- consequence systems (punishment and incentive alignments);
- environmental controls (regulatory and social sanctioning); and
- intrinsically-oriented controls (vigilance and self-controls).

Autonomy-reduction measures encompass behavioural processes. Premised on formalised rules and policies, these controls constrain employee behaviour by standardising work processes. Concertive and bureaucratic controls are designed to enhance operational efficiency. These controls target aspects such as accounting systems, policies and procedures, communication channels, and work standardisation (Schnatterly, 2003).

Consequence systems are formally implemented administrative controls intended for shaping employees' behaviour. These systems reward employees for desirable behaviour and punish them for undesirable conduct.

Environmental controls work by deterring individuals from behaviour that may lead to social or legal penalties. If social or legal sanctions for engaging in criminal behaviour are explicit, severe enough, and strictly enforced, the inclination to commit crime decreases. Nonetheless, environmental controls as described by Lange (2008) fall outside the realm of organisational control as they mainly relate to external factors such as laws and government regulations.

Finally, intrinsically-oriented controls are measures that change individuals' attitudes toward criminal behaviour perpetrated by themselves or others. They entail constructive deviance, principled dissent, functional disobedience, and constructive conformity. Simply put, intrinsically-oriented controls involve individuals raising the alarm when they witness criminal behaviour in the workplace. Whistleblowing is an ideal example of an intrinsically-oriented control. A major strength of Lange's (2008) approach to crime control in business organisations is that it acknowledges the diverse origins of corporate crime.

Whether controls are effective or not is dependent on how they are exercised. Stansbury and Barry (2007) distinguished two types of internal controls: coercive controls; and enabling controls. Coercive controls are designed to enable superiors to determine whether subordinates are compliant. These controls are not instituted to assist subordinates to determine how good a process operates or to aid them in dealing with the unavoidable contingencies associated with work processes. Enabling controls, however, are designed to help employees understand the process being controlled. Enabling controls give employees an understanding of work processes, their purpose, and their functioning. Employees use this understanding to interpret information, leading to effective response to contingencies. Stansbury and Barry's (2007) analysis demonstrated that enabling controls tend to be more effective in promoting ethical behaviour than coercive controls, though the effectiveness may vary depending on the context of application. In an enabling environment, the organisation emphasises not only compliance, detection, and discipline, but also shared ethical values (Stansbury & Barry, 2007). This may result in positive employee outcomes in terms of familiarity with ethical issues, integrity, willingness to report ethical violations, and organisational commitment.

8.5.10 Influencing the business environment

Any measures to address criminogenesis at the macro-levels appears to be a daunting undertaking. On a broader scale, it is challenging to leverage the effect of criminogenic factors found in markets (e.g.

intense competition, pressure to imitate successful peers, market uncertainties and fluctuations) and compensate criminogenic conditions (poor legal framework, weak law enforcement, corrupt key players, inadequate market regulation, social acceptance of illegal practices). However, businesses and especially large corporations have social responsibility to fight illegal corruption in the business context wherever they operate.

This challenge can be overcome through collaborative action (Glebovskiy, 2019a). This may, for instance, involve the joint development of industry codes of conduct, cooperation between firms and policymakers to increase transparency in the business environment, as well as creating fair market conditions for all participants. Efforts aimed at deterring criminogenic isomorphism can only have a positive impact, if all (key) players in the market follow the same rules and adhere to the same ethical principles while conducting business. For instance, such rules might require that suppliers are selected exclusively based on price, quality, and service delivery. Any other stimuli for selection such as offering bribes or kick-back payments must then be deemed unacceptable (Siemens Global Website, 2017). Just as the old proverb 'fighting fire with fire' suggests, the effects of isomorphic forces and mechanisms might be used to neutralise the criminogenic influence of the isomorphic process. If other organisations start to follow and mimic the ethical behaviour of trend-setting companies, the isomorphic dynamics might be directed towards establishing proper and prudent organisational conduct across markets and industries. "Zero tolerance" policies in the US offer an ideal example of combating endemic corporate crime in this way across industries (Beckert, 2010).

8.5.11 Further recommendations against corporate crime

Unusual challenges such as the persistent occurrence of corporate crime require unusual solutions. One such resolution for reducing business malfeasance is the obliteration of the corporation as a legal person, since it is this legal personhood that constitutes and reinforces irresponsibility (Tombs & Whyte, 2015). This abolishment of the corporation would see the private sector comprise of organisations of business forms distinct from corporations. These alternative business forms include sole proprietorship, general partnership, and limited partnership. These alternative business forms have structures that make the owners liable and responsible for the actions of their companies. When owners know that they can face legal actions for any malpractice carried out on behalf of their business, they are more likely to be cautious about the decisions that they make (Velde, 2010). Consequently, the removal of limited liability would make every shareholder responsible for the actions of the organisation. Furthermore, it would prevent shareholders from misusing their control rights to influence decisions made by the directors to favour short-term profitability. Shareholders, thus held accountable for the actions of their organisations, would ensure transparency in their

conduct and be accountable to the broader circle of the organisation's stakeholders, namely employees, the government and the public. Hence, the abolishment of the corporate legal person is also a step towards increasing accountability.

Another solution to handling the corporate criminal is the enactment of policies and laws that protect the interests and the welfare of the general public. The recommendation is based on the perspective that the collaboration between the state and the corporation without any consideration for societal interests produces more harm than good (Tombs & Whyte, 2015). This set of policies and laws would enhance responsible behaviour by the wealthy and promote the establishment of ethical relations between the government, businesses and society. However, this solution can only work if the symbiotic relationship between the state and the corporation vanishes after the abolishment of the corporation as a legal person.

The next possible resolution to the issue of corporate is the empowerment of social movements, environmental groups, and workers' organisations. Core to this empowerment is the recognition that the push for the upholding of employees and human rights requires the mobilization of social movements and lobby groups (Stammers, 2015). Movements such as environmental groups and labour unions have a common theme in the struggle to defend their rights in regard to the conduct of various companies and the government. To this end, empowered movements can help keep organisations in check to ensure that they do not cause social harm, commit corporate crime, and violate human or workers' rights. For instance, the empowerment of environmental groups or activists places them as watchdogs that ensure the conservation of the environment and sustainable conduct by manufacturing companies (Stammers, 2015). Since there are gaps in government regulations that corporations may exploit, social movements, environmental groups, and labour organisations act as independent bodies for scrutinising and vetting the actions of corporations (Lord & van Wingerde, 2019; Tombs & Whyte, 2015). Hence, the empowerment of such bodies also addresses the inadequacy of regulations and the lack of accountability among many corporations.

A further recommendation is an increased focus on individuals and decision-makers at the top of business organisations. Some managers and corporate leaders conduct harmful and unlawful activities in under their corporate mantle that they would otherwise avoid in their personal capacity (Armstrong & Green, 2012). If corporate directors or managers are to be individually held criminally liable for their actions, there would be a reduction in the number of officeholders who misuse corporate resources to commit corporate crime or cause social harm. A good illustration of such an approach is the case of car manufacturer Volkswagen, which was accused of manipulating software and manufacturing vehicles whose emissions did not meet standards and therefore contributed to environmental

pollution. The German government launched a criminal investigation against the former CEO of the company as he permitted the continued use of 'defeat devices' in the software of the vehicles' engines despite the existing environmental regulations (Boston, 2019). In Germany, the example of the investigation against the former CEO of Volkswagen remains the exception rather than the rule.

The UK government's establishment of a stringent regime in the financial services industry that allows regulators to hold management responsible for any violations by financial institutions is another good example of the increased attention on corporate leaders and their conduct (HM Treasury, 2015). Therefore, this focus on company's leaders can be of great help in vetting the conduct of the directors and managers of corporations.

A further way to tackle existing business malfeasance is through the use of 'watchdogs' to oversee the conduct of corporations (EY, 2016). The 'watchdogs' are often a collaboration between multilateral organisations, law enforcement agencies, and governments applying international standards to ensure that businesses that propagate corporate crime are called to account. Nevertheless, a shortcoming of this approach is the involvement of the government in such efforts, presenting a major conflict of interest that might undermine the results of such collaborative efforts. An alternative approach is the use of equity fines to increase the liability of the owners of corporations, which was for example discussed in the Scottish Parliament in 2010 but it was rejected by legislators. Following from this, Tombs & Whyte (2015) suggest taking a more drastic approach to tackling business malfeasance: the abolishing of corporations as a business form, which however largely depends on the removal of corporations from the protection of the constitutions found in capitalist countries.

Other avenues that can be considered for tackling malfeasance include public shaming on media outlets or the instalment of a corporate 'death penalty' which can be implemented through a forced company closure or the nationalisation of the corporation (Ellis & Whyte, 2016).

8.6 Role of self-control and morality in avoiding illegal and unethical behaviour

8.6.1 Definition of self-control and morality

Self-control can be defined as “a persistent individual behavioural tendency” (Vazsonyi & Huang, 2010, p. 245). It is the ability to regulate one’s impulses and to abstain from undesirable behavioural inclinations (Hofmann *et al.*, 2018). According to Gottfredson and Hirschi’s (1990) general theory of crime (GTC), self-control is the sole predictor of criminal behaviour. This theory posits that weak self-control causes an individual to be “impulsive, physical (as opposed to mental), risk-taking, short-sighted, and non-verbal, and they will tend therefore to engage in criminal and analogous acts” (Gottfredson & Hirschi, 1990, p. 90). In other words, a self-control deficiency predisposes an individual to illegal and unethical conduct.

In particular, fraud case 4 outlined in Table 2 highlights the problem of low self-control, where the Sales Director misused a company credit card for personal purchases. This case clearly points out that given criminal opportunity, individuals with low self-control have a tendency to act selfishly without consideration for the future. In this context, Gottfredson and Hirschi’s theory provides a valuable insight into criminal behaviour in the organisational context. Accordingly, managers and employees with weak self-control are more likely to commit illegal and unethical acts compared to those with strong self-control.

A closely related concept to self-control is the notion of morality. Morality is generally defined as the value or belief system that governs individuals and society (Antonaccio & Tittle, 2008). It is regarded as a set of rules and norms that fundamentally foster harmonious coexistence between members of a society (Hofmann *et al.*, 2018). An individual’s sense of morality defines their perception of what is right and wrong and hence serves as the basis of how individuals act. Morality has received as much attention as self-control in crime causation research and according to the Situational Action Theory (SAT) introduced by Wikström (2004, 2010), frail morality is the major cause of criminality (Wikström & Svensson, 2010). At the core of SAT is the argument that the cause of criminality cannot be reduced to just self-control (Wikström & Treiber, 2007). Instead, the theory proposes that whether individuals engage in criminal behaviour or not is a matter of their moral beliefs. People will abstain from criminal behaviour if they are guided by moral principles that problematise wrongdoing. Similarly, individuals without commitment to moral rules are likely to engage in illegal and unethical behaviour. While this theory is a valuable contribution to the understanding of criminal behaviour, its major shortcoming is that it ignores the notion of moral relativism – the view that morality is subjective. That is, what is

considered as wrong or right by one individual or in one society may be perceived differently by another individual or in another society.

My observations gathered throughout the 21 fraud cases shown in Table 2 suggest that moral beliefs navigate employee behaviour in the organisational setting. In other words, employees with a strong morality tend to be more empathetic, honest, prone to guiltiness, and mindful of the consequences of their actions, and are thus less likely to engage in destructive or negative behaviours. Self-control and morality are the strongest influencers of criminal behaviour and therefore efforts to prevent crime in organisations cannot afford to ignore their role in crime reduction.

8.6.2 Developing self-control and morality

An important aspect of discussion in this discourse is how self-control and morality develop. GTC suggests that self-control develops during childhood and remains largely constant throughout one's life (Gottfredson & Hirschi, 1990). The development of self-control at this stage is primarily shaped by parenting practices - how parents monitor their child's behaviour and punish deviant behaviour when it occurs determines their ability to exercise self-control during childhood and later in life. The implication is that poor development of self-control during childhood inclines an individual to deviance during adolescence and adulthood. This was confirmed by Vazsonyi and Huang's (2010) study that monitored self-control and deviance in 1,155 children over a period of 6 years. The study found that self-control and deviance remained stable during the period of the study, with parenting shaping the trajectory. Whereas the importance of parenting practices in moulding self-control cannot be overemphasised, Buker's (2011) review of crime literature demonstrates that the development of self-control is a much more complex process than conceptualised by Gottfredson and Hirschi (1990). The review found that in addition to parenting practices, the development of self-control is also shaped by biological factors (e.g. intelligence, genetics, and mental status), familial factors (e.g. single parent family and family environment), the social context (e.g. neighbourhood, friends), education (e.g. emphasis on discipline at school), and religion (Buker, 2011).

Considering Gottfredson and Hirschi's theory and Buker's (2011) review, it can be argued that the development of self-control is significantly dependent on how individuals are socialised in various social settings, including home, school, and religious establishments. This argument can be extended to the organisational context to explain crime and deviance. Depending on how employees are socialised throughout their time in the organisation, this can significantly determine their ability to exercise self-control when presented with an opportunity for criminal behaviour (Wikström & Svensson, 2010). In businesses with high ethical standards, where employees are successfully

socialised into such behaviour norms, they are less likely to engage in illegal and unethical conduct. The opposite is also true.

Similar to self-control, morality is largely shaped by an individual's social environment. Every society has rules and norms that govern collective behaviour. These rules and norms are passed on from one generation to another through socialisation processes (Hofmann et al., 2018). Socialisation may occur at home, school, or in places of worship, to mention just a few. In these social settings, individuals are taught honesty, respect, integrity, compassion, and other moral values. It is expected that these values will subsequently influence how individuals behave throughout the course of their life (Hofmann et al., 2018). While individuals may not always subscribe to society's moral teachings, the influence of moral development on engaging in illegal and unethical conduct is profound.

8.6.3 Moral self-control

Clearly, both self-control and morality as well as the result of their interaction are vital predictors and influencers of criminal behaviour. According to Wikström and Svensson (2010), criminal behaviour is an outcome of both an individual's morality and self-control capability. This argument suggests that individuals who commit criminal behaviour are deficient in both self-control and morality. Hofmann et al. (2018) observe that self-control and morality interlock to form what they refer to as 'moral self-control'. This proposition implies that the concepts of self-control and morality are closely related and predict criminal behaviour in a similar manner. For instance, when presented with an opportunity to commit a crime, individuals with a strong sense of morality exercise their self-control to refrain from acting on the opportunity. The individuals consciously acknowledge that acting on the opportunity goes against their moral values and consequently activate their self-control to avoid committing an illegal or unethical act. In the context of organisational crime, self-control and morality can be seen as intertwined in the sense they both achieve the same end. When members of an organisation regulate undesirable impulses, they promote collective good by desisting from selfish, deviant behaviour (Hofmann *et al.*, 2018). Similarly, staying away from illegal and unethical behaviour on account of moral standards exemplifies an individual's prioritisation of group interests over individual interests.

While both self-control and morality are predictors of criminal behaviour, the strongest predictor between the two remains a matter of contention. According to Cohen and Turan (2014), individuals with a strong sense of morality have stronger self-control and lower inclination to deviance, meaning that morality influences self-control and behaviour. Empirical evidence has supported the superiority of morality over self-control with regard to crime causation. Antonaccio and Tittle's (2008) study found that whereas self-control plays a crucial role in deterring criminal behaviour, morality is regarded as a stronger predictor. In another study that involved 1,957 British teenagers aged 14-15, it was found

that participants with stronger morality were less likely to commit crime, irrespective of their self-control capability (Wikström & Svensson, 2010). Svensson, Pauwels and Weerman's (2010) study found that self-control had a stronger effect on crime causation in adolescents with weak morality compared to their counterparts with strong morality. The four studies (Antonaccio & Tittle, 2008; Svensson, Pauwels & Weerman, 2010; Tittle et al., 2010; Wikström & Svensson, 2010) acknowledge that while both self-control and morality play a role in crime causation, the latter has a larger influence.

One of the plausible explanations for why morality is a stronger predictor of criminality than self-control could be that broader social factors such as norms influence moral development, which in turn shapes the development of individual traits such as self-control (Wikström & Svensson, 2010). Tittle et al. (2010) agree with this view, contending that whether an individual is able or willing to exercise self-control in relation to abstinence from criminal behaviour is largely dependent on the moral context.

On the whole, there is an interaction between self-control and morality in predicting crime despite the fact that the latter is a stronger predictor of criminal behaviour than the former. What can be deduced from this is that organisations ought to pay greater attention to both variables influencing the decision-making process and ultimately the behaviour of employees. In this sense, the notion of moral self-control appears to perfectly capture the interplay of both influences. Morally upright employees with strong self-control capabilities are very unlikely to have an inclination to illegal and unethical behaviour. Therefore, organisations should consider the role of moral self-control in fraud prevention effort. Accordingly, organisations could prevent illegal and unethical behaviour by considering the morality and self-control capabilities of individuals during the recruitment and promotion processes. Indeed, many organisations already conduct integrity tests when hiring employees in an effort to gauge both variables. I see such measures as one of the most helpful ways of mitigating the risk of criminal behaviour in an organisational context.

8.7 Summary

The road towards engagement in corporate crime starts for companies with the failure to effectively prevent the occurrence of illegality at its roots. In this case, the business organisations specifically fail due to insufficient analysis of the criminogenic components, organisational attributes and powers that facilitate and promote misconduct (Geis, 2007). The lack of a holistic evaluation of criminogenesis reveals the predicament that companies are often on the path to criminal behaviour without being aware of this fact (Piquero and Piquero, 2006).

There are no small cases of crime but rather cases that are identified early and ceased in due time (Clinard and Yeager, 1980). It is irresponsible and naïve for business organisations to wrap themselves in a cocoon of security, by assuming corporate crime may exist and occur elsewhere, but it will not affect them.

Auditing, fraud risk assessment, employing compliance officers and anti-fraud managers, whistleblowing programs, codes of conduct, and other crime-prevention measures in the business context fail largely because they do not address the root cause of crime. Anti-fraud measures usually do not consider the individual and organisational factors that shape and influence criminal behaviour in firms. Individual factors, such as personality and moral development, are notable contributors to unethical and illegal behaviour. Organisational and environmental factors also play a significant role in influencing unethical and criminal conduct.

Measures aimed at deterring corporate crime tend to ignore criminogenic social and psychological processes, which result in the intended results not being achieved. Corporate crime remains commonplace despite the existence of a variety of anti-fraud measures. Employees have little or no knowledge of criminogenic processes and forces they undergo in social settings, further compounding the problem. While many organisations have a code of conduct, in most cases it is vague, not clearly communicated, and not properly enforced.

Firms must change the way they address criminal behaviour if anti-fraud measures are to be more effective. The importance of effective crime deterrence is highlighted by the huge costs incurred by individuals, organisations, stakeholders, and society. Through comprehensive employee training and management commitment, the code must be stringently enforced to ensure congruence between the code and employees' behaviour. Proper development, communication, and enforcement of ethical guidelines promotes ethical behaviour by raising the awareness of ethical issues, familiarising employees with consequences for unethical and illegal behaviour, reinforcing individual accountability, and encouraging the reporting of unethical and criminal conduct. Organisations should help employees

to develop their moral self-regulatory skills and also be aware of organisational conditions that support criminal behaviour, such as unfavourable working conditions, hierarchical structures, weak management controls, coercive leadership and management practices. Addressing these conditions potentially enhances employee motivation and employee satisfaction, subsequently reducing the likelihood of criminal activity. Rewarding ethical compliance, protecting whistle-blowers, emphasising individual integrity, and fostering critical thinking among employees could also contribute to crime-prevention efforts.

While it may be impossible to eliminate corporate crime completely, preventive measures that address the root cause of crime could significantly reduce its occurrence. Without interventions that tackle the underlying criminogenic factors that lead to criminal behaviour, business organisations will continue to bear the overwhelming costs associated with corporate crime. Scandals involving once-powerful firms, such as Enron, WorldCom, and Tyco, have undoubtedly taught the business community valuable lessons regarding the nature of corporate crime and how it occurs. It is no wonder that corporate-crime literature constantly cites these firms. The billions of pounds that organisations lose to fraud every year clearly show that change is needed regarding how corporate crime is addressed. Overall, the buck stops with employees, leaders and management of business organisations. They have a responsibility to enhance individual moral self-control capabilities across businesses and create and sustain cultures that strictly prohibit and punish unethical behaviour.

9 Induction of an Integrative Model of Criminogenesis

9.1 Introduction

Whereas a great deal of scholarly attention has been paid to the criminogenic antecedents at the micro-, meso-, and macro-level in isolated form, there is no integrative model which holistically considers individual, organisational and environmental factors while explaining criminal conduct in the business context.

For instance, Gottfredson and Hirschi (1990) argue that the individual, rather than the environment or organisation, is a more cogent unit of analysis in the explanation of organisational misconduct. They primarily concentrate in their General Theory of Crime at the micro-level by emphasising the individual propensity to illegality as the major cause of corporate crime (Gottfredson and Hirschi 1990, Herbert *et al.*, 1998).

On the contrary, Reed and Yeager (1996) de-emphasise micro-level factors, and instead propose a meso-level explanation for corporate offending. They stress that (business) organisations are the appropriate unit of analysis rather than individuals (Herbert *et al.*, 1998). Reed and Yeager (1996) primarily see organisations and their internal settings as the main drivers for criminal activities (Herbert *et al.*, 1998). In their arguments against the General Theory of Crime, they seemingly rely most heavily on Merton's Strain Theory (1938) emphasising the criminogenic structures of business organisations, and on social learning theories (Akers, 1998) pointing towards criminogenic cultures (Herbert *et al.*, 1998). In summary, Reed and Yeager (1996) suggest that meso-level factors predominate and transcend other levels in their ultimate effect on corporate crime.

Herbert *et al.* (1998) aim to blend both meso-level and micro-level factors as the main influences on corporate offending. In this vein, the focus of the authors lies on the discussion of ethical culture creation within business organisations and the ways in which organisation members negotiate the criminalisation of the workplace (Herbert *et al.*, 1998). Also, other theoretical approaches to the aetiology of corporate crime have advocated for the notion of combining the rationality of organisations and individuals within business organisations (Vaughan, 1996, 1998; Piquero, 2006).

That said, there are not many theories integrating the different theories and addressing various levels of analysis (Vaughan, 2002b). The range of relevant theories encompasses models of deviance, social control, as well as organisational and institutional theory, which combine the major principles of social organisations and situated actions (Weick, 1979; Giddens, 1979; Vaughan, 2002b, 2007).

I attempt to offer a model of criminogenesis to foster the discussion on an integrative model. Considering various theories and studies of criminal behaviour within a business context, the aim of

the model is to attempt to explain the mechanics of how criminal and deviant behaviour can be supported and generated, the source of crime in organisational settings and to point out where the locus of anti-fraud efforts should be located, in order to effectively control the risk of illegal and unethical conduct.

For the purpose of the model induction, I performed the analysis at three levels: individual, organisation, and environment. The crux of this micro/meso/macro-split is that events or any changes at one level might have direct or indirect consequences at other levels (Goldman and Callaghan, 2015, p. 11). In other words, there is interdependence between the factors, processes and forces among the three domains. All three levels are dynamic domains that have the propensity to organise themselves and at the same time they might mutually shape and influence the development of processes and forces harboured in other domains (Goldman and Callaghan, 2015).

Therefore, the discussion on the origin of the organisational crime in the business context cannot be reduced to a single domain and any single factor at one level. A lack of consideration of these interdependences and a perspective excessively focused on one level can lead to a one-sided view on the phenomenon of corporate crime. Therefore, the holistic approach needs to contend with at least three levels of analysis: micro (individual as a human agent), meso (organisation as a social construct), and macro (the environment where both the organisations and individuals act).

Following on from the idea of considering diverse areas when analysing the causes of corporate crime, it is conceivable that crime is most likely to occur if all three levels of analysis are involved and a combination of following situations takes place:

1. Political, economic and legal systems provide a fruitful environment for crime to thrive (macro-level).
2. A corporate culture exists that condones, coerces or facilitates criminal behaviour (meso-level).
3. There are employees who commit crimes to benefit themselves or their organisation and there are individuals who are aware of illegalities and don't do anything to prevent crime from happening (micro-level).

9.2 The concept of a multi-level model

Endeavouring to explain corporate crime calls for a multi-level approach to discuss the origins of corporate criminogenesis from a holistic perspective. This approach is required in order to embrace the variety of criminogenic factors, circumstances, processes and forces operating over the different levels. In summary, a multi-level approach to analyse criminogenesis refers to three levels:

- Macro-level relates to the overarching domain and represents the business environment, such as the specific industry and market in which the company operates (Bethune, 2015, p. 139).
- Meso-level deals with organisations as social constructs and refers to areas such as business organisations that connect the macro- and micro-levels as an intermediary layer (Vaughan, 2007).
- Micro-level is concerned with human agency: employees across an organisational hierarchy. Micro-level does not necessarily mean that this is the smallest domain of analysis. It rather emphasises that the focus is on individual employees acting in their social setting or a small group of employees functioning in a particular social context (Heath, 2008).

The multi-level approach treats each level as a salient unit of analysis which allows in-depth analysis of the individual, organisational, and environmental domains and their interconnections (Vaughan, 2002b). This approach aims to provide insights into the question of crime causation by systematically taking employees, organisational setting and environment into account.

This discussion on the relationship between the environment, organisational settings, and the behaviour of individuals is not new. Repeatedly, researchers have highlighted the connection between different levels by pointing out that the structures and processes in organisational settings are implicated in individual actions, and the environment impinges upon and is reproduced in both the organisational settings and individual conduct (Millman, 1977; Jackall, 1988; Edmondson, 1996; Rosenthal *et al.*, 1999; Vaughan, 2002b).

This connection is crucial in the search for the root of corporate crime. On one hand, a tough environment with a high degree of competition and scarce resources generates pressures on business organisations to break laws, rules, and regulations in order to attain their business goals (Aldrich, 1979; Danisman, *et al.*, 2006). On the other hand, the settings, structure and processes of business organisations provide plenty of opportunities for individuals to engage in illegal activities (Vaughan, 2007).

9.3 An integrative model of criminogenesis

An integrative model of criminogenesis considers the environmental, organisational and individual antecedents of criminal behaviour may lead to more effective deterrence of criminal activity in the business world. Within my research I concluded that criminogenic antecedents of criminal behaviour fall in three categories:

1. Environmental factors, which include symbiotic and complex state-corporation relations, political conditions supporting business interests, intense competition in a given industry,

isomorphic pressure to imitate peers, market uncertainties in connection with fluctuations and sectorial changes. They contribute to an increase in illegal and unethical behaviour through crime-facilitative and coercive conditions such as poor legal frameworks, weak law enforcement, corrupt key players dictating the rules in the market, inadequate market regulation, and social acceptance of illegal practices in a particular market (Needleman and Needleman, 1979; Heath, 2008; Rose, 2010).

2. Organisational factors make up the second vector of criminogenic antecedents and include organisational structure, hierarchy, culture, leadership, and working climate. They primarily influence criminal conduct through the socialisation process, social pressure to conform to the group norm, the obedience and groupthink effects, lack of diversity in group, prevalence of poor leadership style and unethical organisational culture (Beu and Buckley, 2004; Hinrichs, 2007; Murphy and Dacin, 2011).
3. Individual factors consist of individual culture, values, beliefs about leader-follower exchanges, as well as narcissistic, Machiavellian, and hubristic tendencies. The criminogenic effect of these factors is enhanced by a lack of critical thinking, unquestioning loyalty to a group, rationalisation mechanisms, displacement of responsibility, moral disengagement, and cost-benefit thinking. (Ashforth and Anand, 2003; Frey, 1994; Hamilton and Sanders, 1992; Vaughan 2002b).

Overall, it can be said that criminal and deviant behaviour in organisational settings can be attributed to diverse factors, which facilitate and contribute to criminal behaviour through a range of criminogenic conditions, forces and processes that operate at the macro-, meso-, and micro-levels. These criminogenic conditions, forces and processes are dissimilar in nature and context; they may naturally induce or coerce an agent (such as individuals, groups, or business organisations) into engaging in criminal behaviour, in the course of the criminalisation process.

The figure below (Figure 8) depicts the model of criminal behaviour which may evolve in the course of the criminalisation process of business organisations and their members. In light of the inherent criminogenesis of business organisations, this model synthesises how environmental, organisational and individual factors contribute to criminal behaviour displayed in and by business organisations, under the effect of facilitative and coercive conditions, forces, processes and settings (Glebovskiy, 2019a).

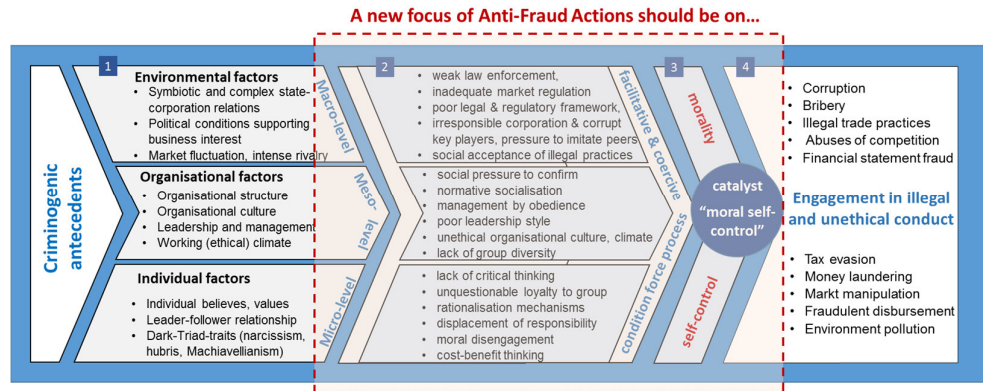


Figure 8. The integrative model of criminogenesis.

In isolation, the existence of criminogenic factors emanating from individual, organisational and environmental levels may or may not lead to the emergence of corporate crime. However, the prospect of criminal engagement will significantly increase in the presence of those circumstances and conditions which support, or at least do not actively discourage, violation of the law or unethical behaviour. The interaction of crime-coercive processes and forces within crime-facilitative settings strongly advances the progress of criminalisation process (Glebovskiy, 2019a).

Environmental organisational and individual antecedents might influence employee behaviour simultaneously and in so doing, they reinforce the creation of a climate where the criminogenic mechanisms and processes have an effect and lead to employee criminal conduct. Through their mutual reinforcement, criminogenic antecedents can create a fertile environment for the proliferation of criminal and unethical activities. Thus, employees' criminal behaviour is shaped by the interaction of factors at all three levels: macro-, meso-, und micro-level.

For instance, in a working environment where obedience to authority is imperative and groupthink is common, individuals are likely to adopt the behaviour of their peers as a result of the socialisation process. In case of engagement in criminal activities, organisational antecedents causes followers to distance themselves from the consequences of their actions by displacing moral responsibility for those actions onto those in authority (Carsten and Uhl-Bien, 2013; Klikauer, 2014). Organisational culture, leadership, and ethical climate lead to criminal behaviour through further socio-psychological processes, including collective reasoning, cost-benefit thinking and rationalisation of criminal behaviour (Chen, 2010; Murphy and Dacin, 2011; Shin, 2012; MacGregor and Stuebs, 2014). Organisations develop cultures and atmospheres that facilitate the proliferation criminal behaviour through the use of techniques such as justification of criminal behaviour, rewarding behaviour that aids the achievement of organisational objectives (even if the behaviour is illegal/unethical), and

punishing members who defy group norms. Ultimately, criminal behaviour would become a norm. In this respect, the circumstances under which businesses and individuals act should be regarded as a pivotal domain for reducing criminal opportunities. Businesses aiming to effectively reduce illegal and unethical conduct in an organisational context are bound to address criminogenic conditions, processes and forces to reduce their adverse effects.

The model treats the self-control capabilities and morality of individuals as a fulcrum and they are the most important elements in the effective reduction of corporate crime throughout the entire criminalisation process (Gottfredson and Hirschi, 1990; Wikström, 2004, 2010). The interconnection and -action of both virtues are expressed in moral self-control competences, which are epitomised in the strong morality, the self-concept and self-regulatory skills of employees who take the role of catalysts and 'moral and ethical goalkeepers'; they can either stop or facilitate the spread of criminalisation within businesses (Wikström & Treiber, 2007; Hofmann *et al.*, 2018).

Employees with weak moral self-control capabilities and who perceive their role in the leadership process as passive are more likely to disengage morally and commit crimes of obedience and, consequently, displace moral responsibility for their actions onto those in authority (Beu and Buckley, 2004; Hinrichs, 2007; Carsten and Uhl-Bien, 2013).

Moral self-regulatory capabilities at the individual level are vital since criminal activities are always planned, thought through, initiated and carried out by human agents in the good name of companies, although corporate crime also refers to illegalities committed by business organisations. This emphasises the importance of the focus of anti-fraud management on enhancing and strengthening individual morality and self-regulation competencies (Beu and Buckley, 2004).

As already mentioned, Milgram's (1965, 1974; cited in Hinrichs, 2007) experiments showed that not all individuals comply with unethical requests from their superiors: 35% of the participants in Milgram's studies were not obedient to authority. Some individuals are able demonstrate constructive resistance (Carsten and Uhl-Bien, 2013), i.e. productive opposition to unethical directives from management, coercive social compliance or groupthink effects. Such individuals have distinct personal characteristics (e.g. conscientiousness, moral identity, locus of control, perceived responsibility for wrongdoing, strong internal moral compass) that predispose them to object to unethical demands from their superiors (Hinrichs, 2007; Carsten and Uhl-Bien, 2013). Rather than blindly obeying unethical demands, these individuals initiate a dialogue and suggest alternative ways of accomplishing a task, straightforwardly presenting reasons for their defiance.

It is crucial to comprehend the reasons why different individuals behave differently in the face of ethical questions or dilemmas. Specifically, individuals with strong moral self-control emphasise personal standards and are less likely to act in ways that violate these standards (Beu and Buckley, 2004, Hofmann *et al.*, 2018). Conversely, individuals with weak moral self-control capabilities emphasise societal standards and are more likely to behave according to the demands of the situation at hand. In accordance with the crimes of obedience perspective, individuals in an organisation are more likely to act as dictated by organisational hierarchy and organisational norms, meaning susceptibility to crimes of obedience is likely to be greater in individuals with lower moral and self-regulatory efficacy (Hinrichs, 2007).

Businesses have the prime responsibility to raise awareness and to provide training for staff that would enhance employees' moral self-control competencies. The fact that some individuals may resist authority, and don't bow under the pressure of criminogenic forces indicates that both strong moral values and self-regulation play an influential role in combatting criminal and unethical conduct in the business context.

9.4 Limitations of the model

To summarise, the model of criminogenesis above outlining the criminalisation process and offering starting points for AFM, sets out that the occurrence of fraudulent behaviour is the product of crime-coercive forces and processes supported by crime-facilitate settings.

One of the limitations of the model is that it does not predict which unit of analysis (individual, organisation, or environment) and what specific criminogenic driver (condition, process, or force) has the ultimate impact on the probability of the outbreak of corporate crime or unethical activities. This analysis should be the topic of other research. Therefore, this model of criminogenesis does not purport to predict which act of crime will be committed, but rather gives an indication what factors, circumstances, processes and forces are present, and which push business organisations and individuals to engage in corporate crime.

Furthermore, the relationship and mutual influence among environmental, organisational and individual factors may be complex. To understand how these factors interact, reinforce and, perhaps, neutralise each themselves or each other, further analysis is required. Future work in this area could test the model using empirical data to prove or disprove its validity. The relationships and possible interactions between these three factors could prove to be a fruitful area of future research.

Also, Vaughan (2002a, p 120) suggests that “situated action links individual, organisation, and environment to produce events, circumstances, and activities”. To better understand how those situated actions operates and prompt criminogenic forces to interact, reinforce or maybe even neutralise at the three different levels, further empirical analysis is required. As stated above, the relationships and mutual influences within criminogenesis located in all three domains may be complex. The model provides a useful framework for future studies in this area.

Moreover, criminogenesis is endemic and omnipresent in all business organisations. The idea of intrinsic criminogenesis begs the question: why do all business organisation not experience corporate crime if all companies are inherently criminogenic? It may be possible to answer this.

Firstly, it is difficult to determine the point in time when a company has started to engage in criminality, due to the secretive nature of such activities (Heath, 2008). Therefore, the known cases of corporate fraud and misconduct are merely a fraction of the total number of corporate crimes (Kalbers, 2009). It is conceivable that all business organisations have been involved at least once in illegal conduct, but this behaviour is simply unknown to the public.

Secondly, the influence of criminogenic elements and forces in terms of their effect on individuals and companies is not constant but can increase and decrease over time. Not all business enterprises have

a high degree of criminogenesis, but those that do tend to be more frequently engaged in misconduct (DeKeseredy *et al.*, 2015, p. 179). In other words, criminogenic processes, factors and forces may operate unevenly in a system so that criminogenic influence in companies can sometimes lessen and increase again, thus creating the occurrence of fraud risk in a dynamic form (Needleman and Needleman, 1979). Consequently, the key question is not whether criminogenic influence is absent or present in each company, but rather how high the criminogenic threshold of organisations is, in order to resist the outbreak of illegal and unethical conduct (Hambrick *et al.*, 2004). In other words, what is the manageable level of criminogenesis that a business organisation is able to resist before criminal and deviant behaviour occurs?

This model should be viewed as a work in progress and therefore I welcome others' thoughts, empirical tests and suggestions to progress the discussion on inherent criminogenesis and its influence on criminal conduct in organisational settings.

10 Deliverables and contribution to knowledge and practice

In my PhD work, I attempt to achieve the dual goals of contributions to both knowledge and practice. Coming from the 'practical field', my endeavour was to connect the nitty-gritty of practice and academic discussion on the origins of corporate crime and fraudulent behaviour in the organisational context. In doing so, I address the practical issues arising from the application of the fraud triangle model and tap the academic knowledge and theories on criminal behaviour to substantiate my claim and to introduce the model on criminogenesis to holistically analyse the origin of illegality in the business world.

10.1 Contribution to academia

I believe that the result of my research directly contributes to the scholarly discussion on the causation of corporate crime. Based on my practical observations made in the field, I highlight and discuss the connection between inherent criminogenesis and controlling of criminal behaviour displayed in and by businesses. This connection lies in a holistic approach to identifying criminogenesis in organisational settings, combining different levels of analysis to elaborate on the causation of corporate crime, and devising measures to prevent the evolution of illegal and unethical conduct in the business environment. The variety and complexity of crime in the corporate world becomes blurry, when this phenomenon is viewed through a one dimensional lens or interpreted based on a single theory. In order to grasp the origin of corporate crime, I addressed a range of determinants and I suggest a model of criminogenesis to explain how the range of individual, organisational and environmental factors contribute to illegal activities under the influence of criminogenic forces, processes and circumstances. I acknowledge that other scholars have used the micro-meso-macro framework before me (see section "6.3 The Micro-Meso-Macro Connection"), but to my knowledge, there is no model of criminogenesis that amalgamates the criminogenic antecedents at the macro-, meso- and micro- levels with the purpose of analysing how individual behaviour is shaped, directed and influenced in socially organised settings. Within the model, I highlight three units of analysis for the study of criminal behaviour in the organisational context and consider the interrelation between individuals, organisations, and the environment in order to explain the causes of corporate crime.

One of the main contributions to knowledge of my PhD work is building a coherent and testable model of the causation of criminal and unethical behaviour in organisational settings, so that research in this area can test the range of conditions under which illegal and unethical conduct is likely to occur. I believe that the model I lay out is eminently testable, and I hope it serves as impetus for future empirical research. In particular, the model has significant implications for researchers working on constructing a comprehensive model of inherent criminogenesis. Furthermore, the model contributes

to advancing our understanding of the complex dynamics underlying the emergence of organisational misconduct.

Researchers that would like to carry out further work and test the model might wish to consider the notion that in order to test the model and reveal an overall pattern of interplay of criminogenic factors, forces, processes and circumstances, it might be sufficient to examine a few organisational factors and how they contribute to criminal behaviour, instead of measuring multiple elements of the organisational, individual and environmental dimensions. Finally, I believe that the model gives impulse and direction toward an integrative theory of corporate crime by providing the foundation for the examination of links and concatenation between the micro-, meso-, and macro-levels of analysis.

10.2 Contribution to practice

I am of the opinion that the results of my research could have implications not only for academia, but also for professional practice in mitigating criminal behaviour. My research findings on inherent criminogenesis and my model of criminogenesis not only catches the old waves but also triggers a new one in the world of practitioners. It is a new notion for professionals to apply an integrative model in terms of individual, organisational and environmental criminogenesis for analysing and explaining the origin of illegal and unethical behaviour in the business context. In my eyes, the scope of anti-fraud efforts should be expanded to address criminogenic processes, forces and conditions that facilitate and support criminal behaviour.

Despite the tension between practice and science (see section 3.2.6), both scholars and practitioners work together toward a common goal: to tackle real world issues and make the world a better place. In this vain, I feel being able to overcome the barriers between academia and practice. One of the significant benefits of my work is to provide value to the professional world by transforming my research findings into actionable knowledge that influences thinking, action and practice on a broad scale. For professionals, my research deliverables provide fresh insights into a variety of criminogenesis at micro-, meso and macro-levels and fosters 'outside-the-box' thinking. My model of criminogenesis closes the gap between academic and practical views on the causes of criminality by looking into the mechanics of how criminal behaviour can be generated in an organisational setting and what can and should be done in practice to reduce such conduct.

I believe that my work will be, if not revolutionary, at least very influential on the practitioner's approach to identifying and analysing the causes of illegal behaviour, and it will help to develop new anti-fraud actions to reduce delinquency. It is indisputable that illegal behaviour in the business

context is an increasing problem for companies because it results in higher costs and affects the reputation of companies, as well as customer confidence.

My research findings call for a readjustment and reworking of counter-fraud strategies in practice and that truly contribute to scholarly discussion on the inherent criminogenesis of business organisations that propels illegal and unethical behaviour within and by companies. In my view, I have succeeded in achieving my goal to advance scholarly and practical debate and understanding on the causes of corporate misconduct. Knowledge of inherent criminogenic factors in organisational environment helps companies, including anti-fraud and compliance practitioners, to enhance the effectiveness of anti-fraud measures and develop anti-fraud strategies to effectively address fraud at its source.

My company is my primary domain where I aim to produce the most visible and tangible impact by providing training to my colleagues on criminogenesis in the working environment, and engaging the HR department and management in fostering moral self-control skills of employees. The provable effect of this action is that the number of illegal and unethical cases have strongly reduced across the business since the beginning of 2017, which is the most rewarding result for me.

I endeavour to make a difference in the professional world by challenging outdated approaches in fraud prevention, championing knowledge acquired through academic research, and joining and building communities of anti-fraud practitioners, in order to find ways to make changes on a larger scale. I regularly communicate the results of my research to my peers working in the field of fraud prevention and investigation. For example, having presented my research at the EBEN Research Conference “Corruption and Beyond - Fraudulent Behaviour in and of Corporations” in September 2018 in Vienna, I received very positive feedback from academics and practitioners attending this conference on my contribution to knowledge in the scholarly and professional world, which gave me confidence that I was on the right path. I have been invited to speak at the DIIR - Congress in Dresden in November 2019, organised by the German Institute of Internal Auditing for professionals, to speak about the practical limitations of the fraud triangle model in fraud prevention and what should be done to improve traditional anti-fraud measures employed by businesses.¹³ Presenting my research results at conferences for practitioners and academics has helped me to solidify my model of criminogenesis and gives me an opportunity to trigger the reformation of the mainstream practice of fraud analysis and prevention.

¹³ An overview of the agenda of the congress can be found in https://www.diir.de/fileadmin/konferenzen/downloads/Kongress_2019/Tagungsbroschuere_Kongress_2019.pdf

11 Personal reflection and outlook for further research

The context statement draws on my research and practical experience over the last 13 years, and therefore represents the knowledge acquired through academic research, while being grounded in practical experiences. During this time, I have been driven and motivated by pure curiosity, self-fulfilment, and joy in the process of discovery which is a natural part of this research.

Performing academic work with a focus on practical and real-world issues was one of the most intriguing parts of my PhD journey. My working environment was my practical laboratory where I could collect my 'empirical samples' emerging while the fraud investigations, and shape and hone my analytical skills to scrutinise the root-case of fraud. Therefore, my PhD was seamlessly integrated with my work, as I could realistically apply academic theories in the real world. I feel that a combination of practitioner and researcher was an optimal way for me to work on such doctoral research, because such an arrangement created a fruitful interplay between the two domains.

I embarked on this study with the aim of finding a resolution for issues relating to the application of the fraud triangle model and ineffective fraud prevention that I have dealt with during my professional career. At the same time, I could greatly improve how I practice my craft and make other colleagues and peers (at least my subordinates in my Corporate Audit department reporting to me) better anti-fraud practitioners.

My research brings together academic and practical views and push new boundaries for both practitioners and scholars by seeking to identify new approaches to tackle the issue of illegal behaviour in the business context. I believe I have succeeded in promoting a dialogue between academics and practitioners and addressing the relationship between theory and practice by exploring holistic perspectives on the causation of illegal conduct in the organisational context. I think that the work-based learning approach helps practitioners like myself to build bridges with the academic world and acquire valuable expertise in research methods, techniques and approaches. In an environment affected by increasing complexity, this learning approach appears to be a sustainable method which will have a lasting effect on my future career.

By doing research based on 'real life' problems arising from the fraud triangle model and at the same time, taking a solution-oriented approach for my organisation to tackle illegal and unethical behaviour, I felt that I underwent transformative change professionally as well as academically. In a professional sense, my professional maturity developed from being a novice to an expert on practical fraud prevention. In an academic sense, I embarked as a 'pure' practitioner upon the first chapter of my

context statement and emerged as an academic researcher from the chapter dealing with my contribution to knowledge.

Reflecting on my PhD journey, I feel that this PhD programme has taken me to a higher level of personal development as well. Through this doctoral study, I assessed my contributions to the practical and academic fields by critically reflecting on my professional experience and publications, and mapped out a route for future public works. In this sense, the learning process led me to considerable personal and professional growth. It has provided me with a new understanding of what is achievable in the professional and academic domains of prevention of corporate crime.

In the course of my PhD journey, I believe I have developed habits of critical reflection, which became a natural part of my professional practice. My skills of critical reflection helped me twofold: to think *de novo* about my fieldwork experiences in order to gain new understanding of fraud causation, and to think critically to discover deeper meanings and interpretations of established practice in fraud prevention.

Throughout my research on this topic, I have intensively investigated the realm of intrinsic criminogenesis that influences companies and employees to engage in illegal activities, malpractice, and unethical behaviour. My publications and research findings have catered to various audiences: to anti-fraud and compliance practitioners looking for new perspectives on criminogenesis and to academic scholars searching for accounts on corporate crime in practice. Within this contextual statement, I presented the findings of my doctoral research, including positioning myself and my findings in the wider field. I have developed my lines of thought and argumentation based on my collected publications which I regard as public works, since they are publicly accessible, and embody my research process and the trajectory of my professional development. I believe that the outcome of my research results will not only help me but other practitioners in the field.

I am devoted to continuous learning and education, and believe that there are many 'unknown unknowns' in the area of criminology yet to be discovered. My findings demonstrate 'merely' a snapshot of my findings over the last 13 years. Therefore, with this statement I present the outcomes which I have achieved during this specific period of time. I think that the saying "once you are a researcher, you will keep researching" reflects my next steps. I plan to continue exploring and publishing in my areas of interest, such as organisational criminogenesis, deviant behaviour in and of organisations, organisational conformity and criminogenic conformist behaviour within organisations, and the effectiveness of anti-fraud measures in the business context. A further specific topic I am interested in exploring is the attitudes of whistle-blowers and cultural resisters.

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13 Annex I – Risk factors for components of the fraud triangle

The Statement on Auditing Standards 99 “Consideration of Fraud in a Financial Statement Audit” (aka SAS 99) issued by the AICPA offers for practitioners following risk factors for three components of the fraud triangle (AICPA, 2002, p 1749 - 1753).

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

A. Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by):

- High degree of competition or market saturation, accompanied by declining margins
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates
- Significant declines in customer demand and increasing business failures in either the industry or overall economy
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent
- Recurring negative cash flows from operations and an inability to generate cash flows from operations while reporting earnings and earnings growth
- Rapid growth or unusual profitability, especially compared to that of other companies in the same industry
- New accounting, statutory, or regulatory requirements

B. Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:

- Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages
- Need to obtain additional debt or equity financing to stay competitive—including financing of major research and development or capital expenditures
- Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements

- Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards

C. Information available indicates that management's or those charged with governance's personal financial situation is threatened by the entity's financial performance arising from the following:

- Significant financial interests in the entity
- Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow)
- Personal guarantees of debts of the entity

D. There is excessive pressure on management or operating personnel to meet financial targets set up by those charged with governance or management, including sales or profitability incentive goals.

Opportunities

A. The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm
- A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or nonarm's-length transactions
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions
- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification

B. There is ineffective monitoring of management as a result of the following:

- Domination of management by a single person or small group (in a nonowner-managed business) without compensating controls

- Ineffective oversight over the financial reporting process and internal control by those charged with governance

C. There is a complex or unstable organizational structure, as evidenced by the following:

- Difficulty in determining the organisation or individuals that have controlling interest in the entity
- Overly complex organisational structure involving unusual legal entities or managerial lines of authority
- High turnover of senior management, counsel, or board members

D. Internal control components are deficient as a result of the following:

- Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required)
- High turnover rates or employment of ineffective accounting, internal audit, or information technology staff
- Ineffective accounting and information systems, including situations involving significant deficiencies or material weaknesses in internal control

Attitudes/Rationalizations

- Ineffective communication, implementation, support, or enforcement of the entity's values or ethical standards by management or the communication of inappropriate values or ethical standards
- Nonfinancial management's excessive participation in or preoccupation with the selection of accounting principles or the determination of significant estimates
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or board members alleging fraud or violations of laws and regulations
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend
- A practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts
- Management failing to correct known significant deficiencies or material weaknesses in internal control on a timely basis

- An interest by management in employing inappropriate means to minimize reported earnings for tax-motivated reasons
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality
- The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:
 - Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters
 - Unreasonable demands on the auditor, such as unreasonable time constraints regarding the completion of the audit or the issuance of the auditor's report
 - Formal or informal restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance
 - Domineering management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance

Risk factors relating to misstatements arising from misappropriation of assets

Pressures

- Personal financial obligations
- Adverse relationships between the entity and employees
 - Known or anticipated future layoffs
 - Anticipated changes to compensation or benefit plan
 - Rewards inconsistent with expectations

Opportunities

- Large amount of cash on hand or processed
- Small size, high value inventory items
- Easily convertible assets
- Fixed assets lacking identification of ownership
- Inadequate internal control over assets
- Inadequate segregation of duties
- Inadequate management oversight
- Inadequate job applicant screening
- Inadequate record keeping

- Inadequate authorization
- Inadequate physical safeguard of assets
- Lack of reconciliations of assets
- Lack of timely and appropriate documentation of transactions
- Lack of mandatory vacations for employees performing key control functions
- Inadequate management understanding of information technology
- Inadequate access control over records

Attitudes/Rationalization

- Disregard for need for monitoring
- Disregard for internal control
- Behaviour indicating displeasure or dissatisfaction with the company
- Change of lifestyle that many indicate assets have been misappropriated.

13 Annex II – Copies of publications

Publication 10: Criminogenic isomorphism and groupthink in the business context

Publication 9: Inherent criminogenesis in business organisations

Publication 8: Early warning systems

Publication 7: Practical approaches to auditing culture

Publication 6: Beating the insurance fraudsters

Publication 5: Integrative Compliance Management in Leasing and Factoring

Publication 4: Fraud risk analysis - prevention of fraudulent activities

Publication 3: Effective management of fraud risks in financial institutions

Publication 2: Financial crime: derivatives as instrument for money laundering?

Publication 1: Economic crime: Money laundering through derivatives.

Publication 10: Criminogenic isomorphism and groupthink in the business context

Glebovskiy, A. (2019) "Criminogenic isomorphism and groupthink in the business context". *International Journal of Organization Theory & Behavior*. 22, (1), pp. 22-42.

Publisher

The International Journal of Organisation Theory and Behavior (ISSN 1093-4537)
(peer-reviewed)

Purpose

This conceptual paper discusses the criminogenic nature of isomorphism and groupthink in business organisations with a view to developing a conceptual model of the criminalisation process leading to criminal behaviour within businesses.

Design/methodology/approach

This paper draws on institutional theory and social psychology theory to discuss how isomorphic and groupthink processes may lead to criminal behaviour in the corporate world.

The article is based on a rigorous review of the relevant literature and theoretical frameworks regarding isomorphic dynamics, processes, factors, forces, and mechanisms in the business context. The review was guided by a question of how isomorphic and groupthink processes can transform business organisations and its members into offenders. The approach applied was to transfer the existing theories of isomorphism and groupthink into the field of criminology, in order to devise a new model of the process of criminalisation.

Findings

The effects of isomorphic and groupthink processes can have a criminogenic effect on businesses and individuals in organisational settings, which may coerce agents to engage in criminal behaviour. In crime-facilitative circumstances, isomorphism and groupthink foster criminal activity by cultivating homogeneous behaviour, conformity, resemblance, shared values, and identical ways of thinking across and within firms. This herd behaviour can be regarded as one of the explanations for the pervasiveness of criminal and unethical behaviour in the corporate world, the consequences of which could be devastating.

Research limitations/implications

This is a theoretical analysis, not one based on empirical findings, though it does suggest a model for future testing.

Practical implications

Explains the criminogenic nature of isomorphic and groupthink processes and contributes to the debate on causation of corporate crime. This has important implications for the deterrence of illegal and unethical activities at both the organisational and institutional levels.

Originality/value

This publication provides a conceptual model of the criminalisation process in businesses fostered by criminogenic isomorphism and groupthink.

Publication 9: Inherent criminogenesis in business organisations

Glebovskiy, A. (2019) "Inherent criminogenesis in business organisations." *Journal of Financial Crime*. 26, (2), pp. 432-446.

Publisher

Journal of Financial Crime (ISSN: 1359-0790)
(peer-reviewed)

Purpose

Discusses criminogenic elements and processes inherently present in business organisations that affect the emergence of crime committed in or by business organisations.

Design/methodology/approach

This conceptual paper, based on relevant literature regarding a range of crime-coercive and crime-facilitative elements and forces that promote corporate crime, considers business organisations as a cogent unit of analysis for discussing the causation and origin of corporate crime.

Findings

Business organisations are, *per se* criminogenic, i.e. companies are latently prone to committing crime, but are not necessarily criminal. By seeking to achieve commercial goals, companies can unintentionally create an atmosphere that invites crimes and unethical conduct. Organisational criminality is not primarily influenced by deviance in individual behaviour, but is a product of the organisation's criminogenic settings and environment. Criminal activity arises from contact with criminogenic systems and employees' adaption to organisational behaviours that do not meet the highest ethical and moral standards.

Research limitations/implications

This is a theoretical analysis, lacking empirical verification.

Practical implications

This publication helps anti-fraud and compliance practitioners to develop anti-fraud strategies to prevent corporate crime at its source. It advances the discussion on the causes of corporate misconduct and progresses the debate on the sources of illegal and unethical behaviour displayed in, and by, business organisations.

Originality/value

This article highlights the intrinsic features of business organisations that influence companies and employees to engage in illegal activities, malpractice, and unethical behaviour. It provides a conceptual framework and insights into the realm of inherent criminogenesis within business organisations and how this is shaped by organisations themselves.

Publication 8: Early warning systems

Glebovskiy, A. (2017), Early warning systems [online]. Available at <<http://auditandrisk.org.uk/features/early-warning-systems>> and <<http://viewer.zmags.com/publication/f8aafafd#/f8aafafd/34>>

Publisher

The web magazine "Audit & Risk". The Chartered Institute of Internal Auditors in the UK and Ireland. London (**peer-reviewed**)

Purpose

Internal whistleblowing mechanisms are not novel arrangements for regulated companies in the UK. However, new requirements made by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to the whistleblowing framework dramatically changed the whistleblowing landscape for relevant firms and those individuals in the UK who may want to come forward with their concerns.

This article discusses and summarises the features of the new obligations regarding whistleblowing systems and offers a new approach for auditing of whistleblowing arrangements.

Design/methodology/approach

This paper discusses practical methods for auditing whistleblowing arrangements based on the author's working experience in auditing.

The article is based on review of academic and practitioner literature, and an analysis of the survey conducted in 2013 by the UK Public Concern at Work

Findings

Effective whistleblowing arrangements are a vital part of good corporate governance and an open and transparent organisational culture. They are a valuable source for intelligence and one of the most effective instruments for the exposure of unlawful activities in and against an organisation.

The new regulatory package of rules obliges companies to create a safe environment and an appropriate organisational culture in which employees can raise their concerns internally without fear of reprisal or other personal consequences.

By auditing whistleblowing arrangements, internal audit can provide added value to help an organisation in meeting their regulatory requirements, building a transparent culture, avoiding negative publicity and maintaining best practice.

Research limitations/implications

Even though internal whistleblowing systems are not new arrangements in practice, they appear to fail at delivering beneficial results. In 2013, Public Concern at Work identified in their survey about whistleblowing in workplaces, that one third of all responses revealed that arrangements were ineffective. Even more alarming is the substantial increase in the number of incidents reported to the FCA which rose from 138 in the financial year 2007/08 to 1,340 cases in the year 2014/15. The increasing amount of external whistleblowing indicates a lack of trust in internal reporting mechanisms and the ability of organisations to investigate the matter in an objective manner.

Practical implications

The regulatory attention given to whistleblowing and the formal sanctions encouraging companies to comply with the new regime call for a regular audit of whistleblowing systems. For internal audit practitioners, the new regime calls for a re-adjustment and re-focusing of the scope of audits to meet the new regulatory expectations.

Originality/value

This paper primarily discusses the possibilities and practical approaches to auditing internal whistleblowing arrangements and helps to devise a strategy in order to provide assurance on the effectiveness of whistleblowing systems.

Publication 7: Practical approaches to auditing culture

Glebovskiy, A. (2016), Practical approaches to auditing culture [online]. Available at <<http://auditandrisk.org.uk/features/practical-approaches-to-auditing-culture>>

Publisher

The web magazine "Audit & Risk". The Chartered Institute of Internal Auditors in the UK and Ireland. London. **(peer-reviewed)**

Purpose

The behaviour of organisations and the individuals within them has become a matter of regulator concern in the UK. Both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) jointly tackle 'cultural tailings' in firms and plan to sanction the companies that fail to maintain an organisational culture that supports prudent management and governance practices.

The article discusses practical approaches to auditing of organisational culture and looks into possible ways to introduce this audit topic to the stakeholders of the audit work.

Design/methodology/approach

As a broad discussion, this paper introduces practical methods for auditing corporate culture based on the author's experience in auditing and the audit's results on organisational culture performed by the author in an insurance company.

Findings

Organisational culture really matters since it can be both the root of problems and an engine for corporate success and competitive advantage.

A poor organisational environment has been identified as the root cause of financial scandals. Boards and internal audits are required to focus on the risks that a company culture presents.

However, culture is a multi-dimensional area with both conscious and unconscious aspects, and rational and irrational components. Therefore, a holistic approach is required from auditors in order to thoroughly and wholly scrutinise cultural aspects, since they involve different layers spread across the business and audit universe.

To audit corporate culture, internal audit needs to look at a wide range of information to build a valid picture about cultural risks, organisational environment and the ethical conduct of management and organisations.

Research limitations/implications

The practical audit approaches introduced in the paper were developed and tested in an organisation operating in the insurance market, therefore the usefulness of the advice may be limited in other financial industries that are subject to the policies of financial regulators.

Practical implications

The new cultural focus of the regulators in the UK challenges internal audit to think *de novo* of audit approaches and methods in order to thoroughly investigate and scrutinise corporate climate and standards of behaviour in an organisation. This paper provides a sound basis for audit and compliance practitioners to develop of audit and compliance programmes focusing on the identification of cultural risks emerging in business.

Originality/value

This paper discusses to a large extent the possibilities and practical approaches for auditing a corporate culture and helps internal auditors and compliance practitioners to devise an audit programme and strategy in terms of evaluation of cultural risk aspects in an organisation. Furthermore, the article provides the basis for development of an anti-fraud culture in business.

Publication 6: Beating the insurance fraudsters

Glebovskiy, A. (2014), Beating the insurance fraudsters [online]. Available at <<http://auditandrisk.org.uk/features/beating-the-insurance-fraudsters>>

Publisher

The web magazine "Audit & Risk". The Chartered Institute of Internal Auditors in the UK and Ireland. London.

(peer-reviewed)

Purpose

The European Solvency II Directive requires insurance companies to implement an effective anti-fraud management system. The purpose of this paper is to offer suggestions for a holistic approach for the development and implementation of anti-fraud management (AFM) that supports an effective system of corporate governance and risk management in an insurance company and echoes the Solvency II requirements.

Design/methodology/approach

Based upon analysis of the Solvency II Directive's requirements, the UK's Insurance Fraud Bureau survey data as well as financial crime literature.

Findings

Fraud is unavoidable, can occur in enterprises with mature risk management systems, and the cost is often substantial. There are four main players in the insurance business that are a potential source of fraud risk: policyholders, employees, sales intermediaries and suppliers. In addition there are factors such as opportunity, incentive, morals and capability. Potential offenders are most likely to act when they are confident that they will not be detected.

Anti-fraud management depends on the successful implementation of a counter-fraud programme that focuses on the following key principles: the company's governance and ethics policies, a regular fraud risk assessment to evaluate the risk of various types of fraud, application of preventative actions and guidelines to minimise opportunities for fraud, utilisation of detection procedures and execution of an appropriate fraud response plan to quickly counter any fraud detected.

A holistic approach to anti-fraud management determines the responsibilities of five key forces in countering fraud, such as the board, the audit committee, internal auditors, the risk management and compliance functions, and managers in individual business units.

Research limitations/implications

Insurance fraud comes in a wide range of shapes and sizes because of the variety of insurance businesses that exist. It is therefore a big challenge for multi-line insurers to find a 'one-size fits all' counter fraud solution at an operational level.

Establishing effective anti-fraud management requires more than just the development of policies and strategic documents that are then passed on to the organisation's employees. An effective AFM system also demands a strong focus on the company's risk culture and putting this culture into practice on a daily basis with a clear understanding of what is required in order to establish an anti-fraud culture in an organisation.

Practical implications

A holistic approach to anti-fraud management can help to ensure prudent risk management across a business and clearly divide responsibilities between all the key players.

Originality/value

A holistic approach to AFM helps to ensure robust governance of fraud risk management and establish an efficient interaction between five relevant business functions, while establishing a clear separation of responsibilities in counter-fraud efforts.

Publication 5: Integrative Compliance Management in Leasing and Factoring

Glebovskiy, A., Hinrichs, J. (2010), Integrative Compliance Management in Leasing and Factoring. Sustainable Design and Implementation. Journal for Finance, Leasing and Factoring. Absatzwirtschaft GmbH, Berlin. ISSN 0174-3163, ZDB-ID 7187282. Vol. 57.2010, 1, p. 26-31

Publisher

Absatzwirtschaft GmbH, Berlin (**peer-reviewed**)

Purpose

Since 2009, German leasing and factoring companies have become subject to regulations regarding anti-money laundering and terror financing. This paper aims to present the development process and benefits of the integrative Compliance Management that focuses on mitigation of money laundering, fraud and financial sanctions risk in organisations operating in the leasing and factoring markets.

Design/methodology/approach

This is based on the practical experience of the author gained during a long-term project. The project's objective was to devise and implement a holistic compliance management system in an international company operating in the leasing and factoring market.

Findings

This paper reflects on the value of Integrative Compliance Management as an effective and efficient approach to mitigate a sophisticated range of compliance risks emerging in the leasing and factoring business and concludes with a number of suggestions as to how the conceptual framework could adequately be implemented in an organisation.

A company implementing Integrative Compliance Management would be in a better position to enhance the quality of compliance work and to achieve monetary savings in management of money laundering and fraud and terror financing risks, by concentrating and pooling together prevention and detection activities, achieving synergy effects and avoiding redundancies in compliance activities.

Research limitations/implications

Practice shows that a range of legally required compliance measures is often in conflict with companies' budget and the limited resources planned for response to the regulatory requirements.

Practical implications

Integrative Compliance Management aims to identify synergy effects in managing the various types of compliance risks (money laundering, fraud, financial sanctions) and effectively avoid redundancy in the day-to-day activities of compliance practitioners.

Originality/value

Compliance management in leasing and factoring organisations was less in the regulator's focus until 2009 so that there was no broad discussion up until then in terms of establishing and maintaining an appropriate compliance system in the leasing and factoring business. The paper defines the first principles for the compliance management system and for development of benchmarking in the leasing and factoring business.

Publication 4: Fraud risk analysis - prevention of fraudulent activities

Glebovskiy, A., Linder, B. (2009), Fraud risk analysis - prevention of fraudulent activities. Die Bank Journal 10/2009. Bank Medien Verlag GmbH, Cologne. ISSN 0342-3182, ZDB-ID 1316369. - 2009, 10, p. 32-37 [online]. Available at <<http://www.die-bank.de/news/betruegerischen-handlungen-vorbeugen-5330/>>

Publisher

Bank Medien Verlag GmbH, Cologne (**peer-reviewed**)

Purpose

This paper aims to discuss the possible strategies and tools to cope with the challenge faced by German banks in performing a comprehensive fraud risk analysis across the business.

Design/methodology/approach

This paper presents reflections on some innovative approaches, tested in practice, to devising a conceptual framework for a fraud related risk analysis and to perform a comprehensive evaluation of fraud risks in the business.

Findings

A methodical approach to fraud risk assessment involves two steps. The first stage of a fraud risk assessment deals with a systematic selection of possible fraudulent *modi operandi* that are pertinent to a specific business environment that directly relates to bank customers and products. Furthermore, the fraud risk assessment is a useful tool to identify the range of criminogenesis that promotes illegal and unethical behaviour. Following on from the first step, the bank's products, customers, transactions and internal processes are analysed and assessed in light of potential ways of fraud being committed. The final result of the fraud risk analysis is considered to be a valid basis for all internal anti-fraud management activities in the business in order to prevent and detect fraud cases.

Research limitations/implications

The anti-fraud measures derived from the fraud risk assessment are as good as the assessment itself. If the risk identification and evaluation have flaws and gaps, the entire anti-fraud risk management system which is based on this assessment is consequently at risk of being inadequate and ineffective.

Practical implications

Fraud risk assessments allow banks to identify high-risk products, transactions, customers and internal processes which require the special attention of a fraud prevention officer and other departments (such as compliance, operational risks and internal auditing) that primarily deal with the fraud risk identification and management in a bank.

Originality/value

This paper offers a practical approach to planning and performing a fraud risk analysis and devising risk-oriented measures that focus on high-risk areas previously identified in the course of the fraud risk evaluation.

Publication 3: Effective management of fraud risks in financial institutions

Brasch, A., Glebovskiy, A., Lindner, B. (2009), Effective management of fraud risks in financial institutions. Risk analysis as cornerstone for fraud prevention. Risk Manager Journal 17/2009, Bank Medien Verlag GmbH, Cologne. ISSN 1861-9363, ZDB-ID 22176342. - 2009, 17 (20.8.), p. 12-15

Publisher

Bank Medien Verlag GmbH, Cologne (**peer-reviewed**)

Purpose

This paper aims to present and analyse the result of research project 'Financial crime in financial institutions' performed in 2009 in Germany by Steria Mummert Consulting AG. The study had the objective of exploring the range of anti-fraud measures utilised by banks to prevent and detect financial crime.

Design/methodology/approach

This paper is based upon analysis of Steria Mummert Consulting survey data. The questionnaire was sent to the top 50 banks located in Germany, which were selected based on their turnover and number of employees.

Findings

This paper shows that the research data from Steria Mummert Consulting survey highlights a heterogeneous picture as to how banks respond to the regulatory requirements for implementation of an effective anti-fraud management system. Even though the majority of financial institutions have advanced systems in place for prevention and detection of fraud cases, the issue of financial crime seems to be either underestimated or to have low priority in the financial market. The comprehensive fraud risk assessment is regarded as a linchpin for effective anti-fraud management and a solid foundation for development of pre-emptive measures to reduce fraud risk in a bank.

Research limitations/implications

The survey in focus excluded small and medium-size financial institutions, therefore the picture of financial crime and the corresponding anti-fraud measures might not be representative of the entire financial sector in Germany.

Furthermore, the overall response rate was 66%, which also reduces the representation power of the survey result.

Practical implications

This paper highlights the need for greater investment across the financial industry in IT-based tools for automatic fraud identification, implementation of whistle-blowing systems as well as considering subsidiaries abroad in group-wide efforts to counter fraud.

Originality/value

This paper presents an empiric insight in the latest development in the German financial sector and contributes to benchmark analysis as to how financial institutions respond in practice to regulatory requirements for development and utilising effective anti-fraud management.

Publication 2: Financial crime: derivatives as instrument for money laundering?

Coppi, D., Glebovskiy, A. (2009), Financial crime: derivatives as instrument for money laundering? Risk Manager journal 7/2009, Bank Medien Verlag GmbH, Cologne. ISSN 1861-9363, ZDB-ID 22176342. - 2009, 7 (2.4.), p. 18-21

Publisher

Bank Medien Verlag GmbH, Cologne (**peer-reviewed**)

Purpose

The purpose of this paper is to illustrate the methods by which financial derivatives (options and futures) could be misused for money launderers to disguise or misrepresent the source of illicit proceeds and to create a legal origin for laundered money.

Design/methodology/approach

This paper points out loopholes in the internal control systems in derivatives trading, based on analysis of a fraud case at the French Bank Société Générale in 2009. It also discusses the relevant money laundering case studies published by Financial Action Task Force (FATF) in 1998-1999 and reflects on key questions for financial institutions in terms of relevant warning indicators (red flags) for early identification of potential money laundering in derivatives trading.

Findings

Less sophisticated money laundering techniques do not guarantee success for money launderers, but financial derivative products appear to be an almost ideal solution for someone looking for a perfect way to disguise the source of illicit proceeds. In particular, trading in the Over-The-Counter (OTC) area is a suitable outlet for illegal activities due to lack of regulations and transparency in the OTC business. Having said that, the development of valid indicators for early identification of suspicious transactions is not an impossible task for a bank that strives to maintain a high standard in its anti-money laundering system.

Research limitations/implications

Financial derivative products are *per se* very complex, and so is derivative trading itself. Therefore, there are very few publicly known cases where derivative financial instruments are involved in potential money laundering.

Practical implications

The complexity of derivatives is the reason why these financial products are a very suitable instrument for money laundering, since the probability for offenders to be revealed is fairly low. Yet financial institutions involved in derivatives trading are legally bound to evaluate the money laundering risk of derivatives and develop an appropriate monitoring system with valid warning indicators which would help to identify suspicious transactions in trading.

Originality/value

This paper offers a valuable insight into the problem of money laundering risk management in derivatives trading and provides with a strategy for the development of warning indicators in terms of identification of suspicious transactions.

Publication 1: Economic crime: Money laundering through derivatives.

Glebovskiy, A. (2005), Economic crime: Money laundering through derivatives. VDM Verlag Dr. Mueller, Berlin (ISBN 3-86550-070-6)

Publisher

VDM Verlag Dr. Mueller, Berlin (**a research-based book, self-publishing without any peer-review**)

Purpose

Money laundering is a mechanism that conceals the illicit origin of property. The publication aims to explore the possibilities for money laundering through financial derivatives in the security market and to what extent those possibilities are assessed and monitored by the German Federal Financial Supervisory Authority (BaFin) and financial institutions.

Design/methodology/approach

Sources of information consisted of the Typologies Report February 1999 (case No 9) from the Financial Action Task Force (FATF), interviews with compliance officers, scholarly articles and articles retrieved from the web.

Findings

There is a lot of potential for money laundering in the derivative markets which are vast, accessible, liquid and international, and therefore provide a wide scope of anonymity.

The 1998-1999 Report on Money Laundering Typologies by the Financial Action Task Force highlights the possibility of misuse of derivatives to launder the proceeds of crime. Even though the possibility that money is being laundered with derivatives is known to the regulator (BaFin) and to financial institutions, there is a lack of rigorous control and monitoring of transactions in the security market in light of money laundering risk, which makes the derivatives market even more attractive from the perspective of a money launderer. The prime opportunity for laundering lies in the complexity of the derivative products, lack of transparency and supervision of the securities market, the ease, speed and international nature of transaction execution, and a high level of anonymity. This is of particular relevance to derivative trading in over-the-counter (OTC) markets where the majority of privately negotiated contracts and trades are performed.

Financial institutions and the German regulator (BaFin) capitulate when confronted with the complexity of the issue concerning effective measures against money laundering in the securities and derivatives market.

Research limitations/implications

Measures against money laundering through derivatives is a very sensitive subject for many financial institutions, which are unwilling to reveal how they deal with this topic in practice. The data collection and evaluation are further complicated by the fact that money laundering is an invisible and 'victimless' crime which involves highly sophisticated techniques.

Practical implications

Illegal money is no longer laundered primarily through cash transactions. Complex financial constructions such as derivatives seem to be more hospitable breeding grounds for money laundering activities.

A low number of money laundering detections in the securities markets indicates that the present control systems in use are not suitable for dealing with this level of sophistication. The securities market remains vulnerable to money laundering, fraudulent trading and market manipulation for a number of reasons: the liquidity of the markets, profit potential, ability to transfer funds globally, and the lack of historical oversight of derivatives trading for the purpose of potential money laundering.

Originality/value

This book discusses the money laundering case studies published by FATF that highlights the attraction of derivatives products for money laundering and potentially for terror financing, and reveals the contemporary picture of the German regulator's stance on this issue.

The publication identifies gaps in the current regulatory framework for derivatives trading and indicates ways in which these can be addressed. The discussions in this book are opening up a new field of research around management of money laundering risk in the securities market. Since the legislation and regulatory framework constantly evolves in terms of required actions to effectively combat money laundering, the recommendations were submitted to regulatory authorities for review and to allow them to adjust their regulatory framework accordingly, in order to close potential legal loopholes.