

**INTERNAL INVESTIGATIONS
OF ECONOMIC CRIME**

**INTERNAL INVESTIGATIONS
OF ECONOMIC CRIME
CORPORATE CASE STUDIES AND
REGULATORY POLICY**

PETTER GOTTSCHALK



Universal-Publishers
Boca Raton

Internal Investigations of Economic Crime: Corporate Case Studies and Regulatory Policy

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Universal-Publishers
Boca Raton, Florida • USA

2015

ISBN-10: 1-62734-048-3

ISBN-13: 978-1-62734-048-9

www.universal-publishers.com

Cover image © Can Stock Photo Inc. / artenot

Publisher's Cataloging-in-Publication Data

Gottschalk, Petter, 1950-

Internal investigations of economic crime : corporate case studies and regulatory policy / Petter Gottschalk.

pages cm

Includes bibliographical references.

ISBN: 978-1-62734-048-9 (pbk.)

1. White collar crimes—Norway. 2. White collar crime investigation. 3.

Business enterprises—Corrupt practices—Case studies. 4. Commercial crimes—Norway. 5. Commercial criminals. I. Title.

HV6768 .G6849 2015

363.25`968—dc23

2015946977

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INTRODUCTION

To detect, unveil, reveal, investigate, prosecute, and otherwise combat and prevent white-collar crime is a challenge in most countries all over the world. The Federal Bureau of Investigation (FBI, 2015a) in the United States characterizes white-collar crime as the full range of frauds committed by business and government professionals. Fraud is a general type of crime that involves using deception for illegal monetary gain. White-collar crime includes violations of law committed by both individuals and organizations. White-collar offenders are typically those offenders in high-status positions, including positions of trust. Public corruption is one form of white-collar crime that involves a breach of trust or an abuse of position by federal, state, or local government officials (Cordis, 2014).

The negative impact of white-collar crime causes harm to individuals, families, organizations, businesses, and units of government. For example, individuals and families can become victims of theft of art, theft of identity, theft of intellectual property and advance fee fraud. Organizations can become victims of embezzlement, kickbacks and bribery. Businesses such as banks can become victims of credit card fraud, bankruptcy fraud and mortgage fraud. Other businesses can become victims of competition fraud, computer fraud, and money laundering. Units of government can become victims of subsidy fraud, tax evasion, and corruption. Recent high-profile incidents of securities fraud have cost investors in the United States billions of dollars, while violations of environmental laws have led to massive damage to the environment and the livelihoods of the people who depend on it. While all kinds of crime have the potential to cause great harm to victims – including physical, psychological and emotional damage – white-collar crime also carries great potential for undermining and eroding public trust in essential institutions and entire societal sectors.

The seriousness of the threat that white-collar crime poses to the economic health and well-being of the United States and other nations is no longer in dispute. The world has witnessed a series of white-collar crime that have devastated families, nations and global markets. In response to the threats posed by white-collar crime, regulators and legislators have developed policy initiatives in hopes of better controlling financial crime by the elite.

White-collar crime research is concerned with studies to advance knowledge and improve efforts to prevent and combat white-collar crime. Research aims to improve our understanding of white-collar crime and criminals, the causes and consequences of white-collar crime, and effective methods of prevention and intervention. In the past, the National Institute of Justice (2015), Office of Justice Programs at the U.S. Department of Justice has supported research into corporate financial crime, savings and loan fraud,

healthcare fraud, environmental crime, protection of intellectual property rights, telemarketing fraud, cybercrime, and class bias in the punishment of white-collar offenders.

This book presents a sample of convicted white-collar criminals in Norway. Descriptions of economic crime by white-collar criminals leads to a general theory of white-collar crime. In addition, well-known theories such as social conflict theory and opportunity theory are relevant to our understanding of how society perceives white-collar crime. The case of public corruption is an area of white-collar crime presented in a dedicated chapter.

After these initial chapters on financial crime in general and white-collar crime in particular, where white-collar crime is financial crime by a privileged group of offenders, the book moves into the topic of internal investigation of economic crime. The purpose is to describe the work of private investigators in fraud examinations, and to present a number of studies of cases that are often unavailable to the general reader. Investigators and their clients tend to keep private investigation reports secret and do not want to disclose them neither to the public nor to the police. The secrecy is sometimes a consequence of the client-attorney privilege in most legislation.

The purpose of describing internal investigations of economic crime is also to reveal potential biases in reports of private investigators. A number of threats to integrity arise in private policing of economic crime. First, the client may point investigators in a certain direction to avoid attention in other areas. The client can thus manipulate the investigation in terms of a biased mandate. Next, in an attempt to deserve the high fee paid for the investigation by the client, investigators may draw conclusions that lack evidence in the findings from examinations. Even worse, private investigators may fabricate evidence in a situation where the client organization was unable to provide relevant information. Furthermore, integrity demands open and transparent decision-making and clarity about the primacy of a private detective's duty to serve the interest of objectivity above all else.

Private investigations by financial crime specialists in organizations often base the work on a mandate at the beginning and an investigation report at the end. Examiners write the report and hand it over to clients who pay for the work. Typically, a professional services firm employs financial crime specialists, while the client is an enterprise in the private or public sector. Therefore, a good source of evaluative material in examining private investigations are the investigation reports delivered from the financial crime specialists to clients.

I

ECONOMIC CRIME BY WHITE-COLLAR CRIMINALS

The definition of white-collar crime is notoriously controversial (Benson and Simpson, 2015; Gottschalk, 2015a, 2015b). There are two main approaches: offender-based and offense-based. Following Sutherland (1940, 1949), the offender-based approach defines white-collar crime as financial crime committed by a person of high social status in the course of his or her occupation. The offense-based approach, on the other hand, focuses more on the nature of the offense than the characteristics of the offender. The most accepted and frequently used offense-based definition stems from work by Edelhertz (1970). He defined white-collar crime as an illegal act or series of illegal acts committed by non-violent means and by concealment or guile to obtain money or property, to avoid losing money or property, or to obtain business or personal advantage.

Whatever the financial crime, the white-collar criminal always leaves someone or something behind in a poorer condition than they were before the crime. Whether it is fraud, corruption, tax evasion, or money laundering, at the conclusion of the offense here is money or something else of value in the hands or control of the white-collar criminal that does not belong to him and should be recovered (CFCS, 2014). White-collar crime is committed by the advantaged class, especially those in positions of economic power (Hirschi and Gottfredson, 1987).

Like all other kinds of crime, there are victims of white-collar crime. When a company manipulates its accounting to obtain new loans from a bank, then the bank is a victim of fraud. When an executive approves a fake invoice from a friend and share the money, then his employer is a victim of embezzlement. When a supplier bribes a customer and gets the contract, then an alternative supplier is a victim of corruption. When a shareholder is successful in using inside information, then other shareholders are victims of insider trading. In my sample of 369 convicted Norwegian white-collar criminals, there are 105 offenders causing internal victims (employer and colleagues) and 264 offenders causing external victims. External victims are tax authorities and thus society at large (70 offenders), customers (67 offenders), banks (56 offenders), shareholders (28 offenders), and other (43 offenders).

Characteristics of Criminals

Management literature makes a distinction between blue-collar and white-collar workers. White-collar tends to include professional, technical and kin-

dred workers, managers, administrators, sales workers, and clerical workers. Blue-collar includes people in different crafts and kindred workers, operatives, except transport, transport equipment operatives, laborers, and service workers (Weaver, 1975).

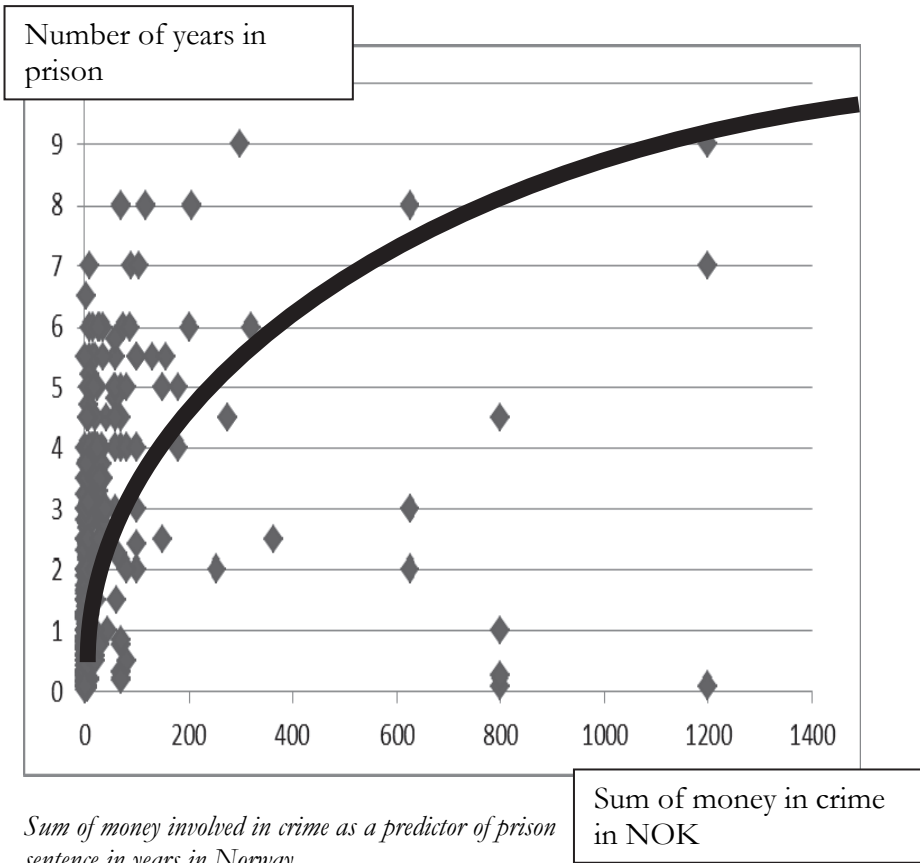
When Sutherland (1940) coined the term white-collar crime, he focused on crime in relation to business. He defined it as crime in the upper or white-collar class, composed of respectable or at least respected business and professional individuals. He argues that those who become white-collar criminals generally start their careers in good neighborhoods and good homes, graduate from colleges with some idealism, and with little selection on their part, get into particular business situations in which criminality is practically a folkway or perceived as a necessity. They adapt into that system of behavior just as into any other folkway.

This initial definition of white-collar criminals has changed slightly over the years, and today it seems that most scholars agree that there are economical, organizational and behavioral aspects to the term. In summary (Gottschalk, 2015b), a white-collar criminal is typically a member of the privileged socioeconomic upper class in society (Sutherland, 1940, 1949), who behaves illegally with intentions in non-violent acts committed for financial gain. The offender is a person of respectability and social status, who commits crime in a professional setting, where the offender conceals and disguises criminal activities in corporate work by seemingly law-abiding behavior. The criminal has power and influence, forms relationships with other persons or professions that protects from developing a criminal identity, and enjoys trust from others in privileged networks. White-collar crime incidents are offences committed by those in professional occupations conducting dishonest activities, by themselves or their agents, for financial gain. The white-collar criminal belongs typically to the ethnic majority in the country and tends to be married.

Furthermore, the criminal is often independent and irresponsible, full of initiative, dishonest and antisocial, keeps others at arms' length, and lacks integrity and social conscience. The offender is likely to exhibit grandiose self-perceptions in terms of narcissistic behavior and psychopathic traits. The criminal belongs to the elite in society and is often wealthy and reasonably well educated. The criminal may be subject to greed or strain and have low self-control. The criminal has legitimate access to equipment in the location where the crime is committed, and the offender hides crime in regular legal work, so that the offender's actions have a superficial appearance of legitimacy. There is a substantial gender gap, as 9 out of 10 convicted white-collar criminals are men (Gottschalk, 2014a, 2015b).

Finally, the white-collar criminal does not consider own actions as crime, although they are known violations of laws, and the offender has no guilt feeling. When the criminal is detected and unveiled, and crime is revealed and documented, often media coverage with suspect identification follows. The

criminal often has resources to hire a top white-collar attorney. White-collar criminals are often sentenced differently and possibly milder than street criminals. White-collar criminals tend to receive a less punitive reaction compared to street offenders, and some are too powerful to jail (Pontell et al., 2014). There is a substantial gender gap, where men are responsible for 9 out of 10 offences.



Onna et al. (2014) studied criminal development and socio-demographic and criminal profile of a sample of prosecuted white-collar offenders in the Netherlands. The criminal career characteristics and socio-demographic profile show a heterogeneous sample of white-collar offenders.

Kostelnik (2012) asked the question; when does shaming work as an alternative to incarceration and fines in sentencing white-collar criminals? He found that shaming may be appropriate as a sanction for white-collar offend-

ers if courts are able to correctly discern the costs associated with its imposition.

McGurrin et al. (2013) studied what changes the disciplines of criminology and criminal justice have undergone with respect to white-collar crime representation in the criminological literature. They found that the research literature continues to underrepresent white-collar crime relative to street crime, even though the costs of white-collar crime tend to substantially greater.

Three hundred and sixty nine white-collar criminals received a prison sentence in Norway from 2009 to 2014. One of the elements determining the sentence is the sum of money involved in crime. The figure illustrates the relationship between crime money and prison sentence for these convicted criminals. One US dollar is equivalent to 6-7 Norwegian kroner. For example, a crime of 400 million Norwegian kroner, about \$60 million, leads to a sentence of 6 years in prison.

Correlation Analysis

For the sample of 369 convicted white-collar criminals in Norway from 2009 to 2014, a number of characteristics were recorded from court records and media coverage. Some of the characteristics are listed in the following table. The average age when committing the crime was 43 years. Five years later, at the age of 48 years, white-collar criminals were convicted on average. The prison sentence was on average 2.3 years. The amount of money involved in the financial crime was 48 million NOK, which is the equivalent of 7 million US dollars. According to figures from the internal revenue service, the average convicted white-collar criminal had a registered income of 384 000 Norwegian kroner, which is the equivalent of fifty thousand dollars per year.

Correlation analysis in the table indicates that older criminals commit financial crime for a larger sum of money. Furthermore, committing financial crime for a larger sum of money leads to a longer prison sentence. Finally, criminals with a longer prison sentence have a lower registered personal income.

Information was also recorded for lawyers who defended white-collar criminals in court (Gottschalk, 2014a, 2015b). The following table indicates that older criminals are defended by older lawyers. Furthermore, older defense lawyers take on cases involving a larger sum of money. Finally, more famous lawyers take on cases involving a larger sum of money. Fame was measured by number of hits in the Norwegian equivalent of 'The Wall Street Journal', which is the Norwegian business newspaper 'Dagens Næringsliv'.

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	Mean value	Age of criminal (years)	Prison sentence (years)	Crime amount (mill. NOK)	Income of criminal (NOK)
Age of criminal (years)	43	1	.090	.199*	.048
Prison sentence (years)	2.3		1	.261**	-.134*
Crime amount (mill NOK)	48			1	-.030
Income of criminal (NOK)	384 000				1

Sample of 349 white-collar criminals in Norway

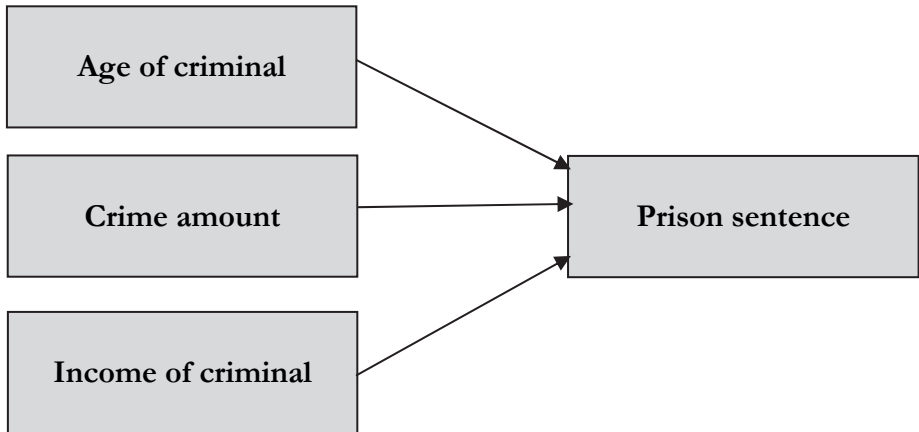
Regression Analysis

Regression analysis implies that one variable might be predicted by one or several other variables. For example, the prison sentence in terms of years in prison might be predicted by the age of the criminal, the amount of money involved in the crime, and by the income of the criminal, as illustrated in the figure.

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	Mean value	Age of criminal (years)	Age of lawyer (years)	Crime amount (mill. NOK)	Lawyer fame (media hits)
Age of criminal (years)	43	1	.197**	.199*	.071
Age of lawyer (years)			1	.119*	.039
Crime amount (mill NOK)	48			1	.131*
Lawyer fame (media hits)					1

Sample of 349 criminals and their lawyers in Norway



Potential predictors of prison sentence in terms of years in prison

Regression analysis applied to the model in the figure reveal that the three independent variables can indeed predict the extent of prison sentence. A significant prediction can be established, and the prediction explains 8 % (in terms of adjusted R square) of the variation in prison sentence among criminals. As a set of three variables, they all contribute to the prediction: age, amount, as well as income. However, when the regression is broken down, the age of criminal is no longer significant. Only crime amount and personal income are significant predictors of prison sentence on an individual basis.

Comparative Fraud Cases

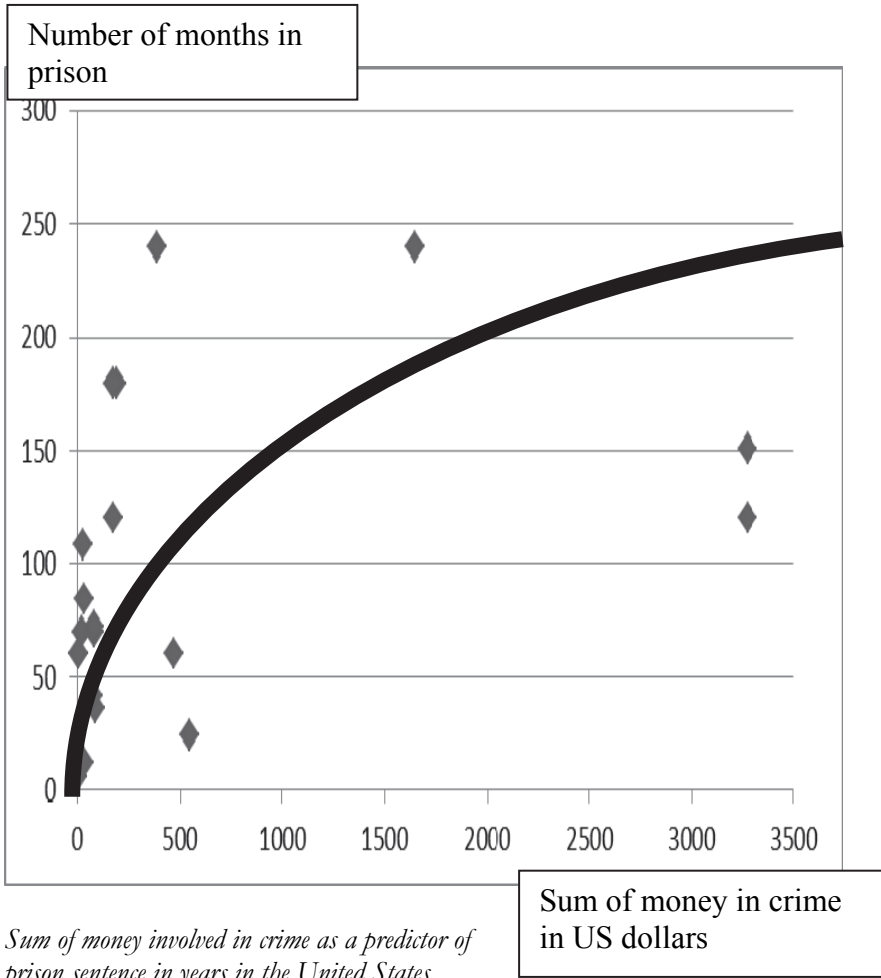
The National Association of Criminal Defense Lawyers has published a comparative fraud case table for convicted white-collar criminals in the United States, as listed below

(<https://www.nacdl.org/criminaldefense.aspx?id=14143>):

- *Christian Milton*, AIG, Vice President, convicted at trial of various counts of fraud, 48 months in prison.
- *Ronald Ferguson*, CEO, General Reinsurance Corporation, convicted at trial of conspiracy, securities fraud, false statements to SEC, and mail fraud, 24 months in prison.
- *Travis Correll*, pled guilty to wire fraud related to Ponzi scheme, 108 months in prison.
- *Robert Cole*, sales representative at Diebold, pled guilty to securities fraud, 12 months in prison.
- *William Ledee*, founder of fictitious insurance company, pled guilty to making false financial statements, engaging in business of insurance as a convicted felon, mail fraud, conspiracy to commit money laundering, etc., 70 months in prison.
- *John Whittier*, manager, Wood Rivers Partners, pled guilty to securities fraud, failure to disclose ownership in excess of 5% of publicly traded security, and failure to disclose ownership in excess of 10% of publicly traded security, 36 months in prison.
- *Paul Humphreys*, CFO, Safety-Kleen, pled guilty to securities fraud and conspiracy (to commit securities fraud, file false reports with SEC, falsify books and records, make false statements to auditors, and commit bank fraud), 70 months in prison.
- *Hector Orlansky*, president, E.S. Bankest, convicted at trial of conspiracy to commit bank fraud, making false statements, wire fraud, conspiracy to commit money laundering, and money laundering, 240 months in prison.
- *Richard Adelson*, CEO and president, Impath, convicted at trial of conspiracy, securities fraud, and filing false reports with SEC, 42 months in prison.

- *Jamie Olis*, tax lawyer, convicted at trial of: (1) conspiracy to commit securities fraud, mail fraud, and wire fraud, (2) securities fraud, (3) mail fraud, and (4) wire fraud, 42 months in prison.
- *Walter A. Forbes*, convicted at trial of conspiracy and making false statements to the SEC, 151 months.
- *E. Kirk Shelton*, vice chairman, Cendant Corporation, convicted at trial of: (1) conspiracy to commit securities fraud, mail fraud, wire fraud, and false statements to SEC, (2) mail fraud, (3) wire fraud, (4) false statements to SEC, and (5) securities fraud, 120 months in prison.
- *Bernard Ebberts*, CEO, WorldCom, convicted at trial of conspiracy, securities fraud, making false filings with the SEC, 300 months in prison.
- *Sanjay Kumar*, CEO, Computer Associates International, pled guilty to conspiracy to commit securities fraud and wire fraud, securities fraud, false statements to SEC, conspiracy to obstruct justice, obstruction of justice, and false statements, 144 months in prison.
- *Stephen Richards*, senior vice president, Computer Associates, pled guilty to conspiracy to commit securities fraud and wire fraud, securities fraud, false statements to SEC, conspiracy to obstruct justice, obstruction of justice, and perjury, 84 months in prison.
- *Mehdi Gabayzadeh*, CEO, American Tissue, convicted at trial of conspiracy to commit securities fraud, conspiracy to commit bank fraud, bank fraud, wire fraud, interstate transport of property obtained from fraud, bankruptcy fraud, conspiracy to commit perjury, and obstruction of justice, 180 months in prison.
- *John Rigas*, founder, Adelphia, convicted at trial of securities fraud, bank fraud, and conspiracy to: (a) commit securities fraud, (b) commit bank fraud, and (c) make or cause to be made false statements in filings to SEC, 144 months in prison.
- *Timothy Rigas*, CFO, Adelphia, convicted at trial of securities fraud, bank fraud, and conspiracy to: (a) commit securities fraud, (b) commit bank fraud, and (c) make or cause to be made false statements in filings to SEC, 204 months in prison.
- *Jacob Jacobowitz*, executive vice president, Allou Healthcare, pled guilty to making false statements in reports to the SEC, 84 months in prison.
- *Herman Jacobowitz*, CEO, Allou Healthcare, pled guilty to conspiracy to commit bank, securities, and mail fraud, and making false statements in reports to SEC, 180 months in prison.

- *Aaron Jacobowitz*, manager of various companies controlled by Jacobowitz family, pled guilty of money laundering, 120 months in prison.



- *Carole Argo*, CFO, SafeNet, pled guilty to securities fraud, 6 months in prison.
- *Lennox Parris*, director, Queench, convicted at trial of conspiracy to commit securities fraud, securities fraud, conspiracy to commit witness tampering, and witness tampering, 60 months in prison.
- *Lester Parris*, director, Queench, convicted at trial of conspiracy to commit securities fraud, securities fraud, conspiracy to commit witness tampering, and witness tampering, 60 months in prison.

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- *Raquel Kobler*, Mutual Benefit Corporation, pled guilty to conspiracy to commit securities fraud, 60 months in prison.
- *Marc Dreier*, managing partner, Dreier LLP, pled guilty to securities fraud, wire fraud, and conspiracy to commit securities and wire fraud, 240 months in prison.
- *Mark Turkcan*, executive, First Bank and Mortgage, pled guilty to misapplication of bank funds, a Class B felony, 12 months in prison.

In the figure, most of the convicted persons above are included in terms of prison sentence and crime amount. Some outliers in terms of crime amount were excluded.

CONVENIENCE THEORY OF WHITE-COLLAR CRIME

In this chapter, a general theory of white-collar crime is presented in terms of three dimensions: economical dimension of crime, organizational dimension of crime, and behavioral dimension of crime. This chapter is a summary of my previous publications on a general theory of white-collar crime (Gottschalk, 2015a, 2015b).

In this book, white-collar crime is studied at the micro level. At the macro level, we find conflict theory suggesting that capitalism leads to a more crime intensive society (Lanier and Henry, 2009b). Capitalism is a system of economic production in which power is concentrated in the hands of a few, with the majority existing in a dependency relationship to the powerful. This class-based economic order is maintained by a criminal justice apparatus that serves the interest of the wealthy at the expense of the poor (Lanier and Henry, 2009a). To limit the exploitation of the poor, governments have passed some laws that set limits to what the powerful can do (Haines, 2014). When the powerful break these laws, they commit white-collar crime (Lea, 2014).

This theoretical chapter is an attempt to provide systematic clarity to the debate around the question of defining white-collar crime. The theory provides a reference point for further debate and development. This chapter should provide a useful summary and processing what might be seen as the main elements of the crime.

The theory proposed is concerned with the ‘what’ and ‘how’ and ‘why’ of crime. The why-part is a general theory of the etiology of crime, i.e., what causes crime. It is a gathering together of ideas around why a certain thing is happening. The theory is based on what should be included in the definition of white-collar crime that is basically all kinds of financial crime carried out by individuals who qualify as white-collar criminals. We define the concept and explain why it occurs.

The approach here is to delineate the general boundaries of the definition of white-collar crime by looking at ‘how’ and ‘why’ the crime in terms of economical, organizational as well as behavioral dimensions, and then to organize extant theories as sub-theories of those types of dimensions into a system of categories that may together generate a detailed definitional boundary. This sort of approach, which may appear as ‘back to front’ to some readers, is justified by moving in reasoning from the general back to the detailed front of the phenomenon of white-collar crime. In doing so, there is a joint discussion of defining and explaining the phenomenon. This is the method of theorizing in the following.

Extracting the concept from marketing theory (Farquhar and Rowley, 2009), convenience in white-collar crime relates to savings in time and effort by privileged and trusted individuals to reach a goal. Convenience is an attribute of an illegal action. Convenience comes at a potential cost to the offender in terms of the likelihood of detection and punishment. In other words, reducing time and effort now entails a greater potential for future cost. 'Paying for convenience' is a way of phrasing this proposition.

Convenience is the perceived savings in time and effort required to find and to facilitate the use of a solution to a problem. Convenience directly relates to the amount of time and effort that is required to accomplish a task. Convenience addresses the time and effort exerted before, during, and after a transaction. Convenience represents a time and effort component related to the complete illegal transaction process or processes (Collier and Kimes, 2012).

People differ in their temporal orientation, including perceived time scarcity, the degree to which they value time, and their sensitivity to time-related issues. Facing strain, greed or other situations, an illegal activity can represent a convenient solution to a problem that the individual or the organization otherwise find difficult or even impossible to solve. The desire for convenience varies among people. Convenience orientation is a term that refers to a person's general preference for convenient solutions to problems. A convenience-oriented individual is one who seeks to accomplish a task in the shortest time with the least expenditure of human energy (Farquhar and Rowley, 2009).

Three main dimensions to explain white-collar crime have emerged (Gottschalk, 2015). All of them link to convenience. The first dimension is concerned with economic aspects, where convenience implies that the illegal financial gain is a convenient option for the decision-maker to cover needs. The second dimension is concerned with organizational aspects, where convenience implies that the offender has convenient access to premises and convenient ability to hide illegal transactions among legal transactions. The third dimension is concerned with behavioral aspects, where convenience implies that the offender has convenient access to and accept of own deviant behavior.

This chapter reviews the state of the art relating to white-collar crime and criminals by applying the economic, organizational, and behavioral dimensions. By combining these dimensions, an integrated explanation of white-collar crime emerges, which we label convenience theory. White-collar criminals have convenient access, and financial crime saves them time and effort to solve a problem related to making a profit. Convenience is a relative concept, where the ease of problem solving can cause future costs for the offender. Crime is committed if found suitable by the offender, and especially when no alternative is in sight.

General Theory Construction

Whetten (1989) suggests that a theoretical contribution starts by identifying factors (variables, construct, concepts) that should be considered as part of the explanation of the phenomenon. He then suggest the how-part, which is how these concepts are related to each other. He also suggests that a theory has to explain the underlying psychological, economic, or social dynamics that justify the selection of factors and the proposed causal relationships. This rationale constitutes the theory's assumptions – the theoretical glue that welds the model together.

Sutton and Staw (1995) argue that a theory has to meet some minimum standards. They argue that references, data, lists of variables or constructs, diagrams and hypotheses or predictions are not theory. They assert that theory is the answer to queries of *why*. Theory is about the connections among phenomena, a story about why acts, events, incidents and reactions occur. They argue that theory emphasizes the nature of causal relationships, identifying what comes first as well as the timing of such events. Strong theory, in their view, delves into underlying processes to understand the systematic reasons for a particular occurrence or nonoccurrence.

Weick (1995) commented on Sutton and Staw's (1995) definition of theory by stating that what theory is not, theorizing is. Products of the theorizing process seldom emerge as full-blown theories. Data, lists, diagrams and hypotheses can be part of a theorizing process. The process of theorizing consists of activities like abstracting, generalizing, relating, selecting, explaining, synthesizing, and idealizing. While theorizing is a process, theory is a product.

DiMaggio (1995) as well commented on Sutton and Staw's (1995) definition of theory by stating that there are more than one kind of good theory. They mentioned theory as covering laws, theory as enlightenment, and theory as narrative. He argues that good theory splits the difference, and that theory construction is social construction, often after the fact.

A few years later, Weick (1999) argued that theorizing in organizational studies has taken on a life of its own. He found that researchers seem more preoccupied with intellectual fashions than with advancement of knowledge. He argues that so much research is irrelevant to practice.

Colquitt and Zapata-Phelan (2007) found that many academics support Sutton and Staw's (1995) definition of a theory in terms of relationships between independent and dependent variables. Theory is then a collection of assertions that identifies how they are interrelated and why, and identifies the conditions under which relationships exist or not exist. From this perspective, a theory is primarily useful to the extent it has the ability to explain variance in a criterion of interest. Other scholars support DiMaggio's (1995) suggestion that theory is an account of a social process, with emphasis on empirical tests of the plausibility of the narrative as well as careful attention to the scope conditions of the account.

Michailova et al. (2014) support Weick's view that theory cannot improve until we improve the theorizing process, and we cannot improve the theorizing process until we describe it more explicitly. They challenge the view that interesting theorizing would be an outcome only of high-quality, sustained relationships in the field, as suggested by the why-only perspective on theory.

In the following, general theory of white-collar crime – consisting of economical, organizational, and behavioral dimensions – the emphasis is on theory as an explanation. An explanation is a set of statements constructed to describe a set of facts which clarifies contexts, modes, causes, and consequences of those facts. This chapter explains occurrence of white-collar crime. The next chapter explains white-collar criminals are and what they do. This is in line with Whetten (1989) who argues that a theory is an explanation of a phenomenon. He suggests that a theory has to explain the underlying economic, social, and psychological dynamics that justify the selection of factors. This is also in line with Weick (1995) who argued that the process of theorizing consists of several activities including explanations. It is as well in line with Colquitt and Zapata-Pelan (2007) who emphasize a theory's ability to explain variance in criteria of interest. Strong theory, in Sutton and Staw's (1995) view, delves into underlying processes so as to understand the systematic reasons for a particular occurrence or nonoccurrence, which the following theoretical descriptions intend to do.

Explanation for understanding is thus the main focus of the following theory. We search for a better understanding of white-collar crime. We are certainly not the only ones (Benson and Simpson, 2005: 71):

Just as with conventional crime, many theoretical approaches have been tried in the search for a better understanding of white-collar crime. The process of applying standard criminological theories to white-collar crime often involves “conceptual acrobatics.” Theorists have to take ideas and concepts that were originally developed to apply to traditional forms of crime and tweak them to account for the special features of white-collar crime and the distinguishing characteristics of white-collar offenders.

An example of a theorist who takes ideas and theorize them is Jacques (2014), who defines an idea as a statement about the nature of reality that people have said, written, or otherwise communicated. This is in line with Williams (2008), who argues that we must devote more attention to considerations of knowledge and knowledgeability in the study of white-collar crime. He suggests that we need to be concerned with the extent to which the power of organizations maintains and reproduces itself, and that we need theory to help document white-collar offending in society impeded by a crisis of knowledge.

Economical Dimension of Crime

White-collar crime is profit-driven crime based on economic opportunities and threats. As argued by Naylor (2003), transfers of property occur by free-market exchange or fraud; and these transfers involve redistribution of wealth and distribution of income. Fraud is illegal procurement of a private asset or means of advantage through deception or through the neglect of care for the interests of an asset required by duty. In particular, fraud includes heterogeneous forms such as misappropriation, balance manipulation, insolvency, and capital investment abuse (Füss and Hecker, 2008). Opportunity is a distinct characteristic of white-collar crime and varies depending on the kinds of criminals involved (Michel, 2008). An opportunity is attractive as a means of responding to desires (Bucy et al., 2008).

Threats can come from loss-making business and special market structure and forces. Economic power available only to certain corporations in concentrated industries, but not to others, may generate criminal conduct. The threat of losing in a bankruptcy what owners already had created can cause executives to rescue and save the company by illegal means. An entrepreneur, who has spent all his time building the enterprise, might be unable to let it disappear. The intention is to protect economic interests of the corporation (Blickle et al., 2006). Threats can come from a monopoly, where potential competitors have the choice of either committing crime or joining the monopoly (Chang et al., 2005). A financial gain is a requirement for survival in all markets (Brightman, 2009).

The economic model of rational self-interest considers incentives and probability of detection (Welsh et al., 2014). Human behavior finds motivation in the self-interested pursuit of pleasure and the avoidance of pain (Hirschi and Gottfredson, 1987, 1989). The rational choice model finds support in an empirical study by Bucy et al. (2008), who identified a number of motives for white-collar crime. According to their study, greed is the most common reason for white-collar criminal acts (Hamilton and Micklethwait, 2006). Money and other forms of financial gain is a frequent motivator documented in many studies. Criminals pursue desired goals, weigh up likely consequences, and make selections from various options. When criminal opportunity is attractive as a means to fulfil one's desires, rational actors will choose it. Goldstraw-White (2012) defines greed as socially constructed needs and desires that can never be completely satisfied. As we move up the social class ladder, need is replaced by greed as the motivating factor behind crime. Greed is a very strong wish to continuously get more of something, it is a strong preference for maximizing wealth.

Because participating in crime is a rational choice, crime rates will be lower where levels of punishment are more certain and/or more severe (Pratt and Cullen, 2005). Rational choice theorists have generally adopted the position of standard economic theory's notion of revealed preferences. However, Kamerdze et al. (2014) argue that affects and individual affective states play a