Corporate Frauds as Criminal Business Models: An Exploratory Study

By

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In this article, we report on the findings of an exploratory, interpretive study of a notorious corporate fraud that occurred in Brazil from 1989 to 2005. We examine the process by which this scheme was created as well as how it was maintained for all those years. Our analysis covers both the substantive aspects (the actions fraud agents effectively perform) and the symbolic aspects (the resources of impression management that they use). We suggest that under certain circumstances, corporate frauds may be understood as the result of implementation of a criminal business model that focuses on a niche market of risk takers or greed investors, uses aggressive commercial practices and offers exclusivity, promotes the organization's image and personality cult of the entrepreneur, operates a management model that combines centralized control with fragmented systems, and uses complex fraudulent practices. This perspective allows us to understand the phenomenon of corporate fraud from a systemic point of view. We also suggest directions for future research and theory development on corporate frauds.

Introduction

Corporate frauds are traumatic events that affect investors, customers, and other stakeholders. Over the past two decades, scandals involving corporate frauds have become a prominent subject in the media. The biggest and most widely discussed cases have occurred in North American companies like Enron, Global Crossing, WorldCom, and Bernard L. Madoff Investment Securities. However, major corporate frauds have also occurred in other countries, for example, the Anglo Irish Bank in the Republic of Ireland, Nortel in Canada, and Parmalat in Italy. Brazil, an emerging country in which we carried out our research, has also

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recorded a significant number of corporate frauds, prominent among which are the cases of the agribusiness company Boi Gordo, the luxury-goods retailer Daslu, the construction company Encol, and the banks Econômico and PanAmericano.

The persistence and impact of corporate fraud, specifically, and corruption, in general, have led to an increase in interest in the phenomenon among researchers (see Ashforth, Gioia, Robinson, & Treviño, 2008; Brown & Cloque, 2011). In the field of organization studies, fraud research has focused on the question of *why* fraud occurs (e.g., Hill, Kelley, Agle, Hitt, & Hoskisson, 1992; Schnatterly, 2003). However, there are still few studies that deal with the question of *how* fraud occurs (Ashforth et al., 2008). To address this latter question, it is necessary to analyze corporate fraud from a systemic perspective, viewing it as the result of coordinated actions.

The purpose of this study is to contribute to the understanding of the phenomenon of corporate fraud. We seek to understand how fraud is committed within an inherently (and intentionally) criminal enterprise. In doing so, we intentionally give emphasis to internal issues, albeit recognizing that external variables, such as lack of effective control by government agencies, also allow fraud agents to implement and maintain their scams. We argue that corporate frauds may be, under certain circumstances, understood as the result of implementation of a criminal business model.

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We carried out an exploratory, interpretive study of a corporate fraud case that occurred in Brazil between 1989 and 2005: the Banco Santos case. This case was chosen because of its notoriety, its duration, its impact on customers, and its widely available legal and journalistic documentation.

The rest of the article is organized in the following way: First, we present the theoretical fundamentals of our study. Second, we describe our methods of information collection and analysis. Third, we present the case and comment on it. Fourth, we explain the criminal business model and illustrate it with the Banco Santos case, as well as two other notorious cases: Madoff and Enron. Finally, we offer suggestions for future research.

Theory

Definition of Corporate Fraud

Fraud, generally speaking, is any cunning act in bad faith, with the intention of deceiving another. Jamal, Johnson, and Berryman (1995) observed that corporate fraud occurs when the fraud agents identify an opportunity, make successive decisions with the aim of obtaining illicit advantages, and manage the mise-en-scène (the symbolic actions carried out to make fraud feasible) to conceal such decisions and their effects.

We find some common characteristics in the literature on fraud that help define the phenomenon: (1) the motivation of the fraudsters, which may be associated with a predisposition (see, e.g., Baucus, 1994); (2) the presence of available targets (see, e.g., Moura, 2007); (3) the nonexistence or insufficiency of internal or external controls (see, e.g., Cohen & Felson, 1979); and (4) social disorganization or the loss of social and moral values (see, e.g., Belkaoui & Picur, 2000; Schnatterly, 2003). It is worth noticing that some definitions of corporate fraud include those against the company, committed by employees. However, this kind of fraud is not the focus of our study.

Based on these definitions and common characteristics found in the literature, we define corporate fraud as:

> A series of illicit acts carried out in a conscious way by members of the top management of an organization, who use the processes and systems of the organization and of management in a deceptive way with the aim of serving their own interests and prejudicing third parties.

The Evolution of Literature on Corporate Fraud

An important milestone in the development of literature on corporate fraud was the work of Baucus (1994), who identified three groups of situational factors that precede fraud: pressure, opportunity, and predisposition to fraud. Pressure is the result of the industry, the legal and regulatory environment, and the organizational characteristics. Opportunity comes from the competitive environment, the legal and regulatory environment, and the organizational characteristics. Predisposition is the result of the characteristics of the environment and, once again, of the organization. Despite its usefulness in systematizing the factors that lead to fraud, this theoretical formulation appears to us to be insufficient for helping address the process by which fraud occurs. In fact, the Baucus model deals only with the antecedents of fraud, making it suitable for use only in determining why fraud occurs.

The work of MacLean (2008), based on a fraud investigation into the sales of a life insurance company, further developed the model of Baucus (1994). MacLean observed that the premise of the "model of corporate illegality" is that individuals, when faced with the variables of pressure, opportunity, and a predisposition to fraud, make a decision to commit or not to commit fraud. But, MacLean pointed out, the influence of individuals' cognitive interpretive frames was missing from the Baucus model. MacLean therefore introduced a moderating variable that is related to the culture of the organization. In doing so, he endowed his model with the logic of symbolic interactionism, in which deviating behavior is socially constructed and rooted deep in the organizational culture, or more precisely, in the frames shared by the professionals within a particular organizational environment. Although this refinement did advance our understanding of the phenomenon of fraud, it still leaves the scientific formulation insufficient to explain how fraud occurs.

We then looked to the work of Misangyi, Weaver, and Elms (2008), which sought to explain the systemic corruption logic that occurred in Bosnia-Herzegovina. This objective demanded an understanding of the substantive and symbolic resources used in both the virtuous and the vicious logic. The study concluded that such resources were similar. What differentiated one logic from another was the way in which meanings were attributed to substantive resources. By detailing the question of cognitive processes and shared schemas, Misangyi et al. (2008) went further along the investigational trail that had been initially laid by MacLean (2008). Their focus was still the same as that of previous authors: to explain why fraud occurs. However, in exploring the symbolic dimension, they carved a promising trail for explaining how fraud occurs.

We can view the work of Baucus (1994), MacLean (2008), and of Misangyi et al. (2008) as contributions to the same evolutive line. The first model provides an understanding of the origins of fraud by emphasizing the factors that precede it. The two later models help with an understanding of how meanings (symbolic resources) for fraudulent practices (substantive resources) are created.

Starting from a procedural point of view, we propose that corporate fraud occurs because of certain preceding conditions (which have already been explored in literature) coupled with the actions of fraud agents, which follow three stages. The first stage is the conception of the fraud, which comprises identifying an opportunity for illicit gain and identifying the substantive and symbolic resources needed for carrying out the intended fraud. The second stage is the introduction of the fraudulent scheme, which consists of mobilizing substantive and symbolic resources and neutralizing control systems. The third stage is the maintenance of the fraudulent scheme, which involves administering it and managing both impression and image, the latter a process directed at both internal and external publics (see Alvesson, 1990; Boorstin, 1962; Giacalone & Rosenfeld, 1991).

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take advantage of these circumstances (Hsien & Tsai, 2005). In order for the scheme to function, the victims, specifically, and interest groups (e.g., the media, control bodies, suppliers), generally, have to be unaware of the asymmetry of information that exists between the parties. The victims need to believe they have all the information necessary for a correct assessment of the business, so the asymmetry must be camouflaged by the image projected by the company through impression management (Westphal & Graebner, 2010).

Methods

In the previous section, we presented a definition of corporate fraud and briefly reported the evolution of the literature dealing with the theme. In this section we present our investigation approach, the criteria adopted for choosing the case, and the methods used for collecting and analyzing the information.

Investigational Approach and Choice of Case

This work is an exploratory, interpretive case study based on an extensive analysis of documents. More specifically, we may classify this as an "instrumental case study" (Stake, 1994, p. 237), since, through the case, we hope to provide insight into the issue of corporate fraud. According to Glaser and Strauss (1979), a case study can generate general conceptual categories or properties. George and Bennett (2005) name "configurative idiographic cases" those that may be used in subsequent studies for theory development, even if, by themselves, they do not contribute directly to theory. In sum, in this article we do not aim to develop a theory of corporate fraud, since we cannot generalize after a single case, but we intend to present ideas to be tested more systematically in future studies.

In research based on case studies, the choice of case is a fundamental issue. In this work, we adopt the criteria suggested by Eisenhardt (1989) and Phillips and Di Domenico (2009). We chose the Banco Santos case for the following reasons: (1) because of its notoriety, size, and impact; (2) to meet the requirements of our theoretical definition of fraud; (3) to involve the use of substantive and symbolic actions, which constituted part of the focus of our investigation; and (4) because a vast amount of information and a large number of documents relating to the case are available for analysis.

Information Collection

The case chosen was widely investigated by the relevant supervisory bodies and was the target of many lawsuits. Furthermore, the company was commented upon in the media both before the fraud was discovered (when it was presented as a success story) and after (when it was presented as a corporate scandal). As a result, our investigation had access to a comprehensive list of documents. The document base we analyzed comprised 24 documents from the judicial branch; 1 document from the Securities and Exchange Commission; 4 pieces of legislation; 222 articles from newspapers, magazines, and electronic media; 1 dissertation; and 9 publicity videos.

The data collection process was based on a constant comparison procedure wherein the next group of data and sources were determined by the analysis of the last group. Important documents accessed by key terms emerged from this process. At first, the key terms "Banco Santos" and "Edemar Cid Ferreira" gave access to relevant legal documents, some less important pieces of legislation, and many media materials, including institutional videos. Then the use of the term "Alsace Lorraine,"—a company in the Banco Santos group found in media material—gave access to the bankruptcy sentence and the prosecution document, which was fundamental to understanding the case and chronologically organizing all the material. The main events and actions were organized in order to display the sequence of facts and the substantive symbolic resources used by fraudsters.

We also followed the principles of "theoretical saturation" (Glaser & Strauss, 1979). The data collection stopped when there was enough consistent material to ensure the trustworthiness of data, and new data did not provide any substantial different knowledge and just confirmed the previous analysis. The constant comparison of data from different sources allowed structuring a story more consistently. As this story was taking form, it was possible to separate substantive resources and symbolic ones. Some of them were present during the entire process, while some were modified along the way.

From this analysis, the process of fraud emerged with its phases and components, and then symbolic issues were organized to explain how each identified symbolic resource was used, for what purpose, and what each was hiding. The emerged fraud process revealed how context was prepared for fraud, internally and externally. Some information was not considered if it did not add comprehension to the process or if there was not strong evidence of its existence from other materials or sources.

Information Interpretation

Analysis procedures and data treatment were adapted from Strauss and Corbin (2008). Interpretation was

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based on two methods: document analysis (Bardin, 1977) and discourse analysis (Phillips & Di Domenico, 2009). Document analyses were conducted to reorganize information in order to describe facts and resources used in the fraud. We identified symbolic resources (e.g., rationalization and socialization processes) and substantive ones (e.g., product and incentive systems). Discourse analysis identified how meanings were modified through theses resources. We described how internal and external context were prepared for fraud and identified elements used in impression management. Substantive actions were identified mainly from legal documents. Symbolic actions were identified mainly from the texts produced by media.

Case Study

In this section, we present and comment on the corporate fraud that occurred at Banco Santos. We describe the company, its history, and the fraudulent scheme.

The Company and Its Strategy

Banco Santos was founded in 1989. Formally, the company was part of the financial arm of organizations belonging to entrepreneur Edemar Cid Ferreira. The 19 companies in this business group were placed in two controlling holding companies, one of which was a financial holding company (Procid Participações) and the other a nonfinancial holding company (Procid Investimentos) (Comissão de Valores Mobiliários, 2008).

From 1998 onward, other companies were created that were directly or indirectly related to Banco Santos, resulting in a system that, according to federal police investigations, comprised 225 companies (Prestes, 2009). This system was created and maintained to facilitate the deflection of funds and was formally headed up by the founder of Banco Santos himself and by his secretary, family members, friends, and other illegal "straw persons," used only as a front.

In 1998, Banco Santos also started operating investment funds. By 2004 it had 82 such funds (Comissão de Valores Mobiliários, 2008). It also became an important intermediary for funds coming from the Brazilian Development Bank (BNDES), the state economic and social development bank.

Banco Santos gave loans at lower cost than did its competitors, and it offered special financing conditions to companies that were experiencing financial difficulties. It also promised its clients a return that was above the usual levels in the market (Consultor Jurídico, 2005). As a result the bank attracted investors with greater risk propensity.

Commercial Strategy and Impression Management

To enter and grow in a competitive market, Banco Santos adopted a niche strategy, seeking to serve companies and private individuals with high purchasing power. To do so it developed personalized and sophisticated services in addition to the extraordinary business conditions it offered for investments and loans. It also sought to create and consolidate an image of competence and seriousness. Within this niche, Banco Santos started attracting particularly those companies that were in financial difficulty and that would find it hard to raise funds in other banks.

Central to this effort was the figure of Edemar Cid Ferreira himself, who used public relations to systematically promote his image as a sophisticated businessman and patron of the arts. Banco Santos was a great patron of the arts, and Cid Ferreira presided over the São Paulo Art Biennial, the most important art exhibition in Brazil, from 1992 to 1997 (Cypriano, 2004). When Banco Santos was operating, the entrepreneur acquired a notable personal collection of paintings and sculptures.

One of Cid Ferreira's companies, BrasilConnects, which was created to organize cultural events, had a collection of 12,000 works of art and a team of specialists for each type of work (Carvalho, 2004a). Over the four-year period it was operational, the company held 49 exhibitions in 12 countries, with the support of 80 Brazilian and international sponsors. Such initiatives reached an audience of 80 million people in Brazil and abroad and provided impressive spontaneous media coverage (Ferreira, 2004). BrasilConnects also produced extraordinary events, such as exhibitions in the Forbidden City in China and in the Vatican (Carvalho, 2004c; Trevisan, 2004).

Such initiatives helped establish an image of sophistication, refinement, and boldness for the entrepreneur and the company. At the same time as the international exhibitions, Cid Ferreira opened an office in China and made approaches to India and Russia as he sought to develop business in all BRIC group countries—Brazil, Russia, India, and China (Barros, 2004a, 2004b, 2004c).

It is relevant to note that before founding Banco Santos, Edemar Cid Ferreira was involved in cases relating to the bankruptcy of companies and deflection of public moneys, and he was denounced by the press for his relations with corrupt politicians in the federal government (see Carvalho, 2004b). However, he was never punished and, as a well-known Brazilian journalist declared, "after he became a patron of the arts, sommelier, a celebrity in the social columns, everything was swept under the carpet" (Nassif, 2004, p. B3).

Organizational Model and Impression Management

Internally, Edemar Cid Ferreira introduced a management system that supported his criminal business model while at the same time creating the illusion, for most of his employees, of a legitimate, competent, and innovative organization. The management system was both centralized and fragmented. Only a small group of executives had a complete view of the operations. Managers had no autonomy to make decisions or change procedures. Banco Santos had a code of ethics and a compliance department, but its operations and internal controls were segmented (Comissão de Valores Mobiliários, 2008), which prevented employees from perceiving the frauds.

The fraudulent scheme used the usual processes and systems of a financial institution, perverted in such a way as to allow the frauds and to conceal them. One of the "creative" resources used by the organization was to buy securities based on the risk classification supplied by rating agencies, which evaluated a portfolio as a whole and not its securities individually. Thus, its fund company used to buy securities of Banco Santos based on bank's portfolio evaluation. As a result, Banco Santos obtained the legitimization it desired, thus concealing the real condition of its portfolio.

To attract highly qualified staff, Banco Santos had an aggressive remuneration policy, which paid salaries and gave prizes that were higher than those of the market. As a result, it attracted talent and strengthened its image as a strong and aggressive institution (Banco Santos, 2008; Comissão de Valores Mobiliários, 2008). Exceptional prizes, including luxury cars, were given to employees who closed reciprocity deals when relending BNDES funds (Carvalho, 2005). These deals involved inducing customers to borrow a greater amount than they needed from the state development bank and to invest the difference in Banco Santos (or related companies) securities. In fact, the remuneration system encouraged not only these deals, which were used to back the bank's yield, but also those that allowed the frauds to occur, thus promoting a socialization process by co-optation (Ashforth & Anand, 2003). Internally, all operations were considered legitimate, the reciprocity operation being viewed as a tacit agreement between the client and the bank.

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The Frauds in Banco Santos

The main fraud committed by Banco Santos consisted of deflecting investor funds to companies controlled by the institution itself, with some of those companies being merely a front, known as paper companies. Such deflections led to a lack of cover in the bank, and this was concealed through illicit accounting procedures that simulated the existence of the necessary guarantee (Comissão de Valores Mobiliários, 2008; Consultor Jurídico, 2005).

The scheme functioned like a pyramid or Ponzi scheme, with withdrawals being covered by funds from new fundraising sources. At the same time, the bank's offshore companies were laundering money by facilitating the illegal transfer of funds abroad. These companies, located in tax havens, were not obliged to reveal information about their shareholders, their partnerships, or their finances (De Sanctis, 2009). The operation of the fraudulent system included two groups of companies: one group deflected money and transferred currency abroad illegally, and the other repatriated and laundered the money.

Moreover, when granting loans, the bank demanded "reciprocity": part of the money received by the client had to be invested in the bonds of group companies (most of them just paper companies) and in investment funds managed by the group's stockbroker. This condition was normally accepted by the client companies, especially those that were unable to obtain loans from other banks because of their weak financial situation. Moreover, this procedure was presented and accepted as part of doing business with Banco Santos.

Bankruptcy

In December 2003, after analyzing Banco Santos's portfolio and evaluating its risk profile, Fitch Ratings lowered the bank's rating (Comissão de Valores Mobiliários, 2008). In 2004, the Brazilian Central Bank and Trevisan, an audit company, indicated problems with the credit risk rating, and in the same year the BNDES reduced its loans for relending.

In parallel, the Sao Paulo Civil Police found information incriminating Banco Santos for laundering and evading money. This information was forwarded to the Brazilian Federal Police. When the Brazilian Federal Police started investigating the Banco Santos group, the Brazilian Central Bank, which had accepted unusual operations without questions until that moment, started to ask Banco Santos for some changes in operation and command.

In response to this situation, which made it difficult to raise new capital and threatened the fraudulent scheme, the bank intensified its illegal operations, attempting to generate cash where it was needed to cover the gaps created by the deflection of funds. The objective was to avoid an asset deterioration that would justify intervention. During that same period, which preceded the bankruptcy, Edemar Cid Ferreira also stepped up his art buying and built a huge mansion in an upscale neighborhood of the city of São Paulo.

In the second half of 2004, the local press treated the problems being faced by the bank in a discreet way, always emphasizing the bank's positive image (e.g., Beraba, 2004; Gradilone, 2004). At the end of 2004, the bank announced drastic changes in its business strategy, indicating that it was opening a retail bank and creating another investment fund. Both initiatives were aimed at customers with incomes considerably lower than those of the bank's traditional customer base. In fact, the objective was to keep the fraudulent system operating by feeding it with new funds.

The bankruptcy of Banco Santos in September 2005 generated a loss of R$3.4 billion (approximately US$2.4 billion in 2013 values) for some 2,000 direct creditors, including 54 pension funds, 15 foreign banks, 97 city administrations, and the BNDES (Comissão de Valores Mobiliários, 2008; Consultor Jurídico, 2005). The case was investigated by the Central Bank, the Securities and Exchange Commission (Comissão de Valores Mobiliários, 2008), the Federal Revenue Service, the Ministry of Finance, the São Paulo Civil Police, the Federal Police (Tavares, 2010), and the Courts (Banco Santos, 2005a, 2005b, 2008; Consultor Jurídico, 2005; JusBrasil, 2009) in various lawsuits. Edemar Cid Ferreira was found guilty of crimes against the financial system, money laundering, organized crime, fraudulent management, and conspiracy ("Ex-banqueiro," 2006; "STF Concede Habeas Corpus," 2006).

Criminal Business Model

In the previous section, we presented the case of corporate fraud at Banco Santos. In this section, we propose an analytical model to better understand it. Complementarily, we discuss the licit and illicit cycles of activities carried out at Banco Santos, and show how symbolic actions were put into practice to hide fraudulent practices.

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Understanding the Fraud as a Criminal Business Model

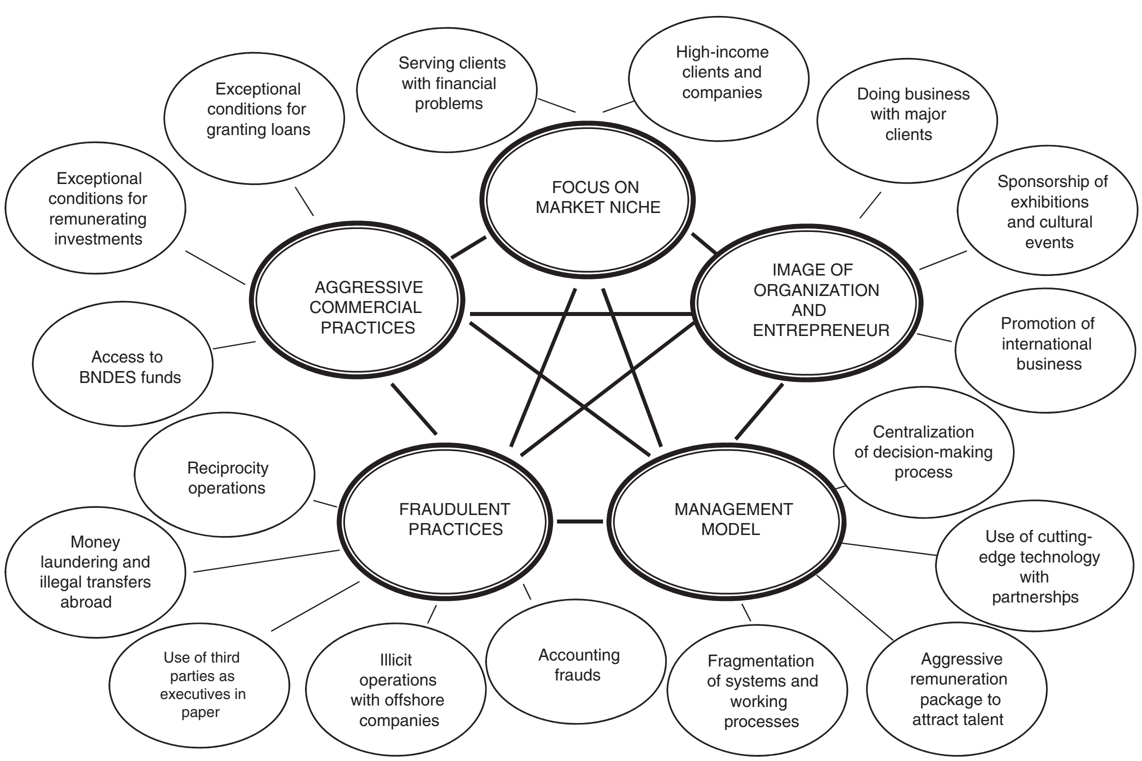
Figure 1 is a diagram of the criminal business model of Banco Santos. The five central components—focus on market niche, image of organization and entrepreneur, management model, fraudulent practices, and aggressive commercial practices—reinforce each other, forming a coherent and cohesive whole that was capable of maintaining the fraudulent scheme for a long period of time. For instance, the image of Cid Ferreira as a sophisticated person and benefactor of the arts helped attract wealthy clients for Banco Santos. By the same token, the management model adopted at Banco Santos hid its fraudulent practices. Clustered around these five central components, we identified 17 secondary elements. These secondary elements are activities, processes, and characteristics designed to support the five central components.

The criminal business model at Banco Santos can be seen as a refined scam, developed and implemented over the years. Its complexity, sophistication, and internal coherence help understand why it was possible for Cid Ferreira to sustain the fraud for so many years.

In the following discussion of the five central components of the criminal business model, in addition to Banco Santos we mention two other notorious corporate fraud cases: Enron and Madoff. Like the Banco Santos case, these were cases of corporate fraud that lasted for many years, deceiving investors, media, regulatory agencies, the US Securities and Exchange Commission (SEC), and the Internal Revenue Service.

1. *Identification of and focus on a market niche of risk takers or greed clients.* At Banco Santos, this niche was made up of high-income clients and companies, including those with financial problems that were not being served by other banks. At Madoff, Bernard Madoff created a separate investment advisory business that targeted a select group of rich and invited investors (Gregoriou & Lhabitant, 2009). Enron focused on an audience looking for exceptional performance in an unknown and deregulated market (see Boje, Rosile, Durant, & Luhman, 2004).
2. *Use of aggressive commercial practices and offer of exclusivity.* Banco Santos offered exceptional conditions for both investors and borrowers and access to BNDES funds through political connections. It also offered additional sophisticated services for wealthy clients. Madoff promised returns that were exceptional, totally safe (see Gregoriou & Lhabitant, 2009; US SEC, 2009), and steady for a long time despite market volatility (Markopolos, 2010). Enron made "creative" use of

FIGURE 1 Criminal Business Model



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special purpose entities (SPEs) to cover its fraudulent operations.

3. *Building of the organization's image and personality cult of the entrepreneur.* At Banco Santos this occurred mainly through sponsorship of cultural events and art exhibitions, promotion of international business, and business dealings with major companies. Madoff's strategy to attract clients included projecting an image of himself as an expert, genius, and sophisticated gentleman with good relationships that should give him privileged knowledge about market functioning and trends. Enron promoted its executives as "the smartest guys," able to innovate and gain fortunes.
4. *A management model that combined centralized control with fragmented systems.* Banco Santos centralized all major decisions at the top, while keeping fragmented systems and processes in its different companies so that its own middle-level managers could not figure out what was going on. Madoff did not execute any transactions at all for his clients; therefore, he did not need a team but a few people, mainly relatives, who centralized communications and forged false documents. Working processes were decentralized as he operated by many feeder funds, refusing to give detailed information about his portfolio and strategy (Gregoriou & Lhabitant, 2009; Markopolos, 2010). Similarly, at Enron the major decisions were centralized in the top management and processes were fragmented in many companies (Boje et al., 2004).
5. *Use of various complex fraudulent practices.* At Banco Santos these practices included deflection of clients' money, accounting fraud, illegal transfer of currency abroad, money laundering, and various other illicit operations. At Madoff these practices included false registration and extraction of trades, accounting fraud, illegal activity of investment advisory, and false testimony (US SEC, 2009). Enron falsified pricing, simulated operations and trades among its companies to legitimate business and volume of trades, produced mise-en-scène of trading operations in order to impress the media, and corrupted ratings agencies (Boje et al., 2004).

Evidently, Figure 1, as presented here, cannot be completely applied to other cases, as it seeks to represent solely Banco Santos's case. However, similarities with other corporate fraud cases, such as those mentioned above, may be more than coincidence. The development of the criminal business model, in order to make it generalizable, must be the object of future research.

Licit and Illicit Cycles

The fraud at Banco Santos was characterized by coexistence within the organization of both licit and illicit cycles. The licit cycle consisted of winning over and serving companies and high-income clients that were attracted by the strong and sophisticated image of Banco Santos and Edemar Cid Ferreira, and by the exceptional investment returns and loan conditions offered. Operations with the BNDES, high-profile clients, and partnerships with major information technology companies cast the organization as respectable and reliable.

The illicit cycle consisted of using countless fraudulent practices, conceived and executed by the chief executive himself and a small group of top managers. Such practices were concealed by the complexity of the organization and by the combination of a centralized decision-making process with fragmented systems and procedures.

Until the first events shook the credibility of Banco Santos and led to its bankruptcy, the licit cycle, which was reinforced by the use of impression management techniques directed toward both internal and external publics, masked the illicit cycle. Some doubtful and risky internal practices were seen as "business-as-usual" for a strategically aggressive, competent, and innovative organization.

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Substantive and Symbolic Actions

The fraud at Banco Santos occurred right from the conception of the company and continued until its bankruptcy. It even intensified toward the end. Its success for so long can be attributed to a synthesis between substantive actions and symbolic actions, a situation that was well orchestrated by the company's top executive. The image of the bold and visionary entrepreneur, allied with that of a strong, legitimate, and profitable business, attracted investors and neutralized any critical views of the company's activities. Table 1 summarizes the substantive and symbolic actions carried out by Banco Santos.

Conclusion

Brazil, like the United States and other countries, has witnessed a number of high-profile corporate fraud cases in the past 20 years. Several of the most notorious Brazilian cases occurred in the financial sector (with the banks Econômico, Nacional, Noroeste, Santos, and PanAmericano) and in the agribusiness sector (Gallus, Boi Gordo, and Avestruz Master). One may hypothesize that these two economic sectors were, for some time, more vulnerable to frauds. However, vulnerability was not directly related to these sectors themselves, but to the lack of regulation and control of financial investments in its business environment. In all these cases, fraudsters implemented their scams in a business environment that was complex and insufficiently controlled. They knew how to deceive clients and regulators, building customers' confidence through the use of symbolic resources and impression management techniques that highlighted extraordinary competences and exclusivity. In the past five years, improvements in the Brazilian regulatory and control systems made frauds like those mentioned above less frequent.

However, cases like the one reported in this article may bring lessons for firms willing to enter the Brazilian market. There is a saying that "Brazil is not for beginners" (see Wood & Caldas, 2002). Foreign firms entering Brazil must pay attention to the complex set of rules and inefficient punishment system for corporate frauds. Foreign firms must also be aware of local competitors, who have expertise on how to take advantage of their understanding of the peculiarities of the local business environment, including those companies that take advantage of political connections with the government and those that use unethical or fraudulent business practices.

We carried out this case study with the objective of contributing to an understanding of the phenomenon of corporate fraud. We analyzed both the substantive and the symbolic aspects of the case and suggested that under certain circumstances, corporate frauds may be understood as the result of a criminal business model—that is, a rational scheme that defines how the organization captures, creates, and distributes wealth (see Baden-Fuller & Morgan, 2010).

As case researchers, we do not claim that our findings are applicable to other fraud cases (George & Bennett, 2005). However, we expect that this article provides insights into the issue of corporate fraud, to be tested in future studies.

In terms of theory development, we believe that future research, involving multiple cases, should address two main questions. The first question is, what makes a criminal business model sustainable? One could, for instance, assume time as a dependent variable and conduct multiple case studies to better understand how different independent variables affect it, such as image and reputation, centralization of decision making, fragmentation of systems and processes, and organizational culture (greed, ambition, and aggressiveness). The second question is, what makes a criminal business model difficult

TABLE 1 Fraudulent Actions and Impression Management

Fraudulent Actions	Impression Management
• Simulation of profitable operations by means of transfers between associated companies • Simulation of loans, with deflection of funds and illegal transfers of currency to offshore companies • Deflection of funds by buying securities from a paper company • Use of relending funds from the BNDES for "reciprocity" operations • Accounting frauds, with improper risk classification, improper registration of companies, and settlement of doubtful credits with funds from offshore companies • Use of third parties as the front executives of paper companies	• Construction of the businessman's image as a visionary, sophisticated, and competent achiever • Construction of the bank's image as strong, imposing, and agile • Construction of the image of employees as a special, sophisticated, and reliable group • Use of cutting-edge technology to provide an air of sophistication and agility to the business • Construction of "partnerships" with major global companies, such as Dell and Microsoft • Celebration of a client portfolio with 300 of the 500 biggest companies operating in Brazil

to detect? One could, for instance, study the effect of multiple variables, such as opacity of information, complexity of the scam, image and reputation, and the use of symbolic resources.

In terms of contribution to the practice, we believe that future research should address the question of how to prevent the implementation of criminal business models. One could, for instance, seek better understanding of fraudulent practices used by fraud agents, such as those we observed at Banco Santos, Madoff, and Enron. One could also seek information on how different countries establish and implement guidelines and policies regarding fraud and how effective they prove to be. For instance, it is well known that the financial industry in Brazil is subject to a regulatory system that is more rigid than that in the United States. In both cases, however, fraud agents were capable of identifying gaps and operating for long periods at the very boundaries of the law. In the United States, despite receiving various complaints about Madoff, the SEC was not capable of uncovering the fraud. Similarly, in Brazil, despite investigating Banco Santos for several years, the Central Bank was unable to identify any irregularities.

We hope that this exploratory study may serve as encouragement for other researchers interested in exploring the gaps in knowledge of the subject, help develop better theories on corporate fraud, and improve prevention and control systems in such a way as to restrain the actions of fraud agents.

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