

# Fraud and Corruption

Peter C. Kratcoski • Maximilian Edelbacher  
Editors

# Fraud and Corruption

Major Types, Prevention, and Control

 Springer

*Editors*

Peter C. Kratcoski  
Department of Sociology  
and Justice Studies  
Kent State University  
Kent, OH, USA

Maximilian Edelbacher  
Academic Council of the United Nations  
System Liaison Office Vienna  
Vienna, Austria

ISBN 978-3-319-92332-1      ISBN 978-3-319-92333-8 (eBook)  
<https://doi.org/10.1007/978-3-319-92333-8>

Library of Congress Control Number: 2018953171

© Springer International Publishing AG, part of Springer Nature 2018

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Switzerland AG  
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

*This book is dedicated to the victims of crime*

# Foreword

Over the last few decades, the growth of the world economy has been quite positive, and there have been improvements in the economic well-being of most countries. However, this growth has been accompanied by some negative developments. The growth in economic crime has become a global problem, and there has been a strong increase in activity by international criminal organizations. Financial and tax fraud and corruption have shown strong increases. Organized crime has gained a significant influence on economies throughout the world, resulting in huge rises in expenditures for law enforcement and the judiciary in their efforts to combat this trend. Investigation of this “dark” side of a globalized economic world is becoming more and more important in the efforts to prevent and control crime.

An increase in corruption has major negative effects on the economy of a country: It leads to higher emigration rates, especially in developing countries. Especially important is the fact that high levels of corruption in government and the business sector lead to highly skilled and well-educated workers leaving developing countries. This results in a shortage of skilled labor and slower economic growth, which in turn create higher unemployment and encourage further emigration. Corruption also shifts public spending from health and education to sectors with less transparency in spending (e.g., the military sector), disadvantaging low-skilled workers and encouraging them to emigrate.

A number of studies show that increased corruption and a larger shadow economy lead to an increase in public debt. Additional research studies indicate that when there is widespread fraud and corruption in the government and those in control of the business sector, the *shadow economy* increases. This effect of corruption leads to huge increases in public debt, as well as distrust in the competency of the public and private leaders of the countries. Studies show that a larger shadow economy reduces tax revenues and thus increases public debt. The higher government expenditures increase the effects of corruption.

For all of these reasons, reducing corruption should be a primary policy goal of governments. Given the complementary relationship between corruption and the

shadow economy, reducing corruption would also lead to a decline in the size of the *shadow economy*, public debt, and the many types of criminal activities that are associated with corruption and fraud.

Fraud, with its connected criminal activities, leads to *dirty money* (money laundering), which is earned through various underground activities, such as drug, weapons, and human trafficking. It is impossible to determine how much illicit crime money in all its forms can be detected and recorded, but the most widely quoted figure by the International Monetary Fund (IMF) for the extent of money laundering from criminal proceeds has ranged from 20% to 50% of the global gross domestic product (GDP).

From these few remarks about the dark side of a globalized economic world, it is obvious that we should know much more about corruption and fraud. This is precisely the goal of the authors who have contributed to this book on the prevention and control of fraud and corruption edited by Maximilian Edelbacher and Peter Kratcoski. Only when we have a detailed knowledge about corruption and fraud, including its connected activities, can we develop policy strategies, enact legislation, and implement effective programs to combat the fraud and corruption that exist to some extent in all of the public and private governments and affect the quality of life of the people. This information can lead to good governance rules and institutions which we urgently need to improve our well-being. I highly recommend this book to anyone interested in finding ways to prevent and control corruption and its related crimes.

Research Institute of Banking and Finance  
Johannes Kepler University Linz  
Linz, Austria

Friedrich Schneider

# Acknowledgments

The editors wish to acknowledge those people who contributed to this book in some way, either by writing, contributing information, or assisting in the production of the book. They are Arije Antinori, John Eterno, Syuzanna Galstyan, Petter Gottschalk, Bricklyn Horne, Alex McKean, Thomas Prenzler, Friedrich Schneider, Branislav Simonović, Eli Silverman, Michael Theil, and Minoru Yokoyama.

The editors also wish to thank those professionals employed in the criminal justice systems who offered vital information and assistance to the authors. The editors also want to thank Katherine Chabalko, editor of Springer, who saw merit in the book, and other members of Springer, who contributed to the production of the book and worked with the editors throughout the various stages of production process.

Special thanks to Lucille Dunn Kratcoski, who assisted in the editing of the chapters and offered encouragement to her husband, Peter Kratcoski.

Peter C. Kratcoski  
Maximilian Edelbacher

# Contents

## **Part I Introduction: Fraud and Corruption**

<b>Introduction: Overview of Major Types of Fraud and Corruption . . . . .</b>	<b>3</b>
Peter C. Kratcoski	
<b>Fraud and Corruption: A European Perspective . . . . .</b>	<b>21</b>
Maximilian Edelbacher	
<b>Convenience Theory on Crime in the Corporate Sector . . . . .</b>	<b>43</b>
Petter Gottschalk	
<b>Identifying and Preventing Gray Corruption in Australian Politics . . . . .</b>	<b>61</b>
Tim Prenzler, Bricklyn Horne, and Alex McKean	
<b>Fraud and Fraudulent Business Practices Related to the East Japan Earthquake . . . . .</b>	<b>83</b>
Minoru Yokoyama	
<b>Fraud and Corruption in the Healthcare Sector in the United States . . . . .</b>	<b>109</b>
Peter C. Kratcoski	
<b>Corruption and Fraud in Policing . . . . .</b>	<b>125</b>
John A. Eterno and Eli B. Silverman	
<b>Fraud and Corruption in Times of Disaster . . . . .</b>	<b>139</b>
Peter C. Kratcoski	

## **Part II Introduction: Methods to Prevent Fraud and Corruption**

<b>Fraud and Corruption in the Insurance Industry: An Austrian Perspective . . . . .</b>	<b>161</b>
Maximilian Edelbacher and Michael Theil	

**Challenges in Controlling, Combating, and Preventing  
Corruption in Developing Countries. . . . . 181**  
Branislav Simonović

**Fraud Examiners in Private Investigations of White-Collar Crime . . . . . 213**  
Petter Gottschalk

**Combating Political Corruption: The Case of Armenia in the Context  
of the United Nations Convention Against Corruption . . . . . 237**  
Syuzanna Galstyan

**Systemic Corruption: Weapons of the Twenty-First Century,  
Organized Crime and the Mafia . . . . . 263**  
Arije Antinori

**Perspectives on Fraud and Corruption in the Future . . . . . 277**  
Peter C. Kratcoski and Maximilian Edelbacher

**Index. . . . . 295**

## About the Editors

**Peter C. Kratcoski** earned a PhD in sociology from the Pennsylvania State University, an MA in sociology from the University of Notre Dame, and a BA in sociology from King's College, Wilkes-Barre, Pennsylvania. He was selected for several postdoctoral grants by the National Science Foundation. He taught at the College of St. Thomas, St. Paul, Minnesota, and the Pennsylvania State University before assuming the position of assistant professor of sociology at Kent State University in 1969. He retired as professor of criminal justice studies and the chairperson of the Department of Criminal Justice Studies at Kent State in 1997. He is currently professor emeritus and adjunct professor at Kent State. He has published many books, book chapters, and journal articles in the areas of juvenile delinquency, juvenile justice, international policing, and crime prevention. He is a member of the International Police Executive Symposium, the Society for Police and Criminal Psychology, and the Academy of Criminal Justice Sciences.

**Maximilian Edelbacher** graduated from Vienna University (Mag. Jur.) and as Hofrat of the Federal Police of Austria. He served as the chief of the Major Crime Bureau, as an international expert for the Council of Europe, OSCE, and UNO. He also chaired the Austrian Antifraud Insurance Bureau and lectured at several universities, including the Vienna University of Economics and Business Administration; Danube University Krems; the Vienna University, Department of Sociology; and as a visiting professor at Kent State University, United States. He was appointed a special investigator of the AVUS Group on white collar crime cases, as vice-president of the Vienna Liaison Office of the Academic Council on the United Nations, and as a director of the International Police Executive Symposium (IPES). He is the author of a number of books and articles and has made numerous presentations at professional conferences.

## Contributors

**Arije Antinori** earned her PhD in criminology from the University of Rome La Sapienza. Dr. Antinori has worked as a sociologist, criminologist, and geopolitics analyst. He also earned a master's in theories and methods of criminal investigation. He is currently a research area coordinator at the Criminology, Crisis Communication, and Media Laboratory at University of Rome La Sapienza. He is a member of the Italian Society of Criminology, the Italian Society of Victimology, the Italian National Security Watch, and the International Police Executive Symposium (IPES). He is a qualified researcher at the Centre for Military and Strategic Studies (CEMISS) and an election observer for the European Union. Dr. Antinori researches and teaches several master's level courses including "Terrorism and Media, Crisis Management and Communications," "Counter-terrorism," "Communication and Crime," and "Islam and Terrorism." Dr. Antinori has made a number of presentations at professional meetings and has written a book and a number of chapters in books relating to organized crime, fraud, corruption, and terrorism.

**John A. Eterno** earned his PhD from the State University of New York at Albany. He is a professor, Associate Dean, and Director of Graduate Studies in Criminal Justice at Molloy College. Dr. Eterno is a retired captain from the New York City Police Department. He is a former managing editor and now on the Board of Editors for *Police Practice and Research*. Dr. Eterno is a representative to the United Nations for the NGO of the International Police Executive Symposium. He serves on the board of the American Academy of Law Enforcement Professionals-Long Island. Dr. Eterno was recognized by the federal courts as an expert witness on police, is regularly quoted in various media outlets, and speaks internationally on his areas of expertise: police performance management, police behavior, law and policing, terrorism, corruption, and other police-related topics. Dr. Eterno is widely published and examples of his works can be seen in *Justice Quarterly*, *Public Administration Review*, the *International Journal of Police Science and Management*, the *Criminal Law Bulletin*, and many other professional journals. Several examples of his most recent publications include an op-ed in the *New York Times* entitled

*Policing by the Numbers*, several peer-reviewed articles in *Justice Quarterly*, and books authored or edited titled: *The Crime Numbers Game: Management by Manipulation* (with Eli B. Silverman), *The New York City Police Department: The Impact of Its Policies and Practices*, and *The Detective's Handbook* with Cliff Roberson.

**Syuzanna Galstyan** received a BA in English (German as a second foreign language) and Pedagogy in 2011 from the Gyumri Pedagogical Institute, Armenia and a MA in Global Studies in 2017 on completion of a double degree program from the University of Leipzig and the University of Vienna. She has engaged in a research project pertaining to corruption in the frame of the Regional Academy on the United Nations in cooperation with the United Nations Office on Drugs and Crime. She is currently engaged as Project Assistant at Transparency International and as Academic Counsel for the Regional Academy on the United Nations Programme (counseling research projects on (anti)-corruption related issues.) Syuzanna also serves as a tutor in the field of global learning.

Syuzanna has skills in four languages, as well as in translation and intercultural communications.

**Petter Gottschalk** was born in Norway. He studied at the Technical University of Berlin, Germany, finishing his Master of Business Administration (MBA); continued at the Thayer School of Engineering, Dartmouth College, and Sloan School of Management, MIT, USA, earning a Master of Science (MSc); and in 1998 finished his studies at the Henley Management College, Brunel University, UK, earning his Doctor of Business Administration. His experiences include the following: Since 2000 he is professor at the BI Norwegian Business School for strategy, knowledge management, outsourcing, IT planning, police leadership, organized crime, financial crime, and law firm management. He acted as associate professor and industrial professor at BI; as CEO for the Norwegian Computer Center (1990–1995); earlier as CEO for ABB Data Cables; vice-president and CIO for the Computer Center, ABB Norway; and as research scientist for the Resource Police Group in the field of Systems dynamics simulations, operations research.

**Bricklyn Horne** tutors in the School of Law, University of the Sunshine Coast, Australia, in the areas of introductory criminology, introductory law, punishment and corrections, and diversity in criminal justice. Her research interests include gray corruption issues in Australian political processes and the impacts of correctional programs on reoffending. Bricklyn graduated with a Bachelor's degree in Justice and Legal Studies/Sociology in 2013. She has participated in postgraduate studies in university teaching and has been involved in a research project to understand and improve engagement and retention for first-year university students.

**Alex McKean** is a lecturer in Law in the School of Law, University of the Sunshine Coast, Australia. He holds a Bachelor of Arts and Bachelor of Laws. His research interests include the roles of anticorruption agencies, political accountability, and public and professional ethics. He teaches in the areas of professional responsibility, advocacy, civil procedure, and employment law. Alex is also a barrister in private practice, primarily serving in personal injury cases and other civil litigation. In addition, he is a volunteer at the Suncoast Community Legal Service and has previously been president of the Management Committee of the Service.

**Tim Prenzler** is a professor in the School of Law, University of the Sunshine Coast, Australia, where he coordinates the Bachelor of Criminology and Justice program. He holds a PhD, MA, BA, and a teaching diploma in the areas of history, literature, and politics. His current teaching and research areas include crime and corruption prevention, police and security officer safety, and gender in policing. Recent books include *Understanding Crime Prevention: The Case Study Approach* (2017, Australian Academic Press), *Civilian Oversight of Police: Advancing Accountability in Law Enforcement* (2016, Taylor & Francis, with Garth den Heyer), *Contemporary Police Practice* (2015, Oxford University Press, with Jacki Drew), and *Understanding and Preventing Corruption* (2013, Palgrave, with Adam Grayear).

**Friedrich Schneider** was born in Germany and earned a Bachelor of Economics and Bachelor of Political Science in 1972 and Master of Economics in 1973. In 1976, he became Dr. rer. soc. (PhD in economics). All his academic degrees were earned from the University of Konstanz, Germany. In 1983, he earned his habilitation – promotion of being able to compete for a full professor (“Chair” in Europe) at the University of Zürich. He earned several honorary doctorate degrees, including degrees from the University of Lima, Peru; the University of Stuttgart, Germany; the University of Trujillo, Peru; and the University of Macedonia, Thessaloniki. Since 1983, he has served as visiting associate professor, GSIA, Carnegie-Mellon University, Pittsburgh, USA; as associate professor of economics, Institute of Economics, Aarhus University, Aarhus, Denmark; as visiting professor, La Trobe University, Melbourne, Australia; as visiting professor, University of Saarbrücken, Saarbrücken, Germany; and as acting dean of the Social Science and Economic Faculty of the Johannes Kepler University, Linz, Austria. He has served as professor of economics since 1986 (chair in Economic Policy and Public Finance, tenured position) at the Johannes Kepler University. He was a visiting professor at the Otago University in New Zealand, and since June 2013 until June 2016 Chairman of the Academic Advisory Board of the Zeppelin University, Friedrichshafen, Germany. Between 1974 and December 2013 he published 70 books, 206 articles in scientific journals, and 178 articles in edited volumes and books.

**Eli B. Silverman** PhD, is professor emeritus in the John Jay College of Criminal Justice and Graduate Center at the City University of New York. He served with the US Department of Justice and the National Academy of Public Administration,

Washington, D.C., and as exchange professor at the Police Staff College in England. Areas of interest include police performance management, community policing, policy analysis, stop and frisk, and comstat. He recently testified as an expert witness in the New York City “stop and frisk” trial, the decision cited in his research. Professor Silverman has consulted and trained police agencies in the USA, the UK, Canada, Mexico, Europe, Asia, and Australia. He is the author of numerous journal articles. Among his recent books are *The Crime Numbers Game: Management by Manipulation* and *NYPD Battles Crime: Innovation Strategies in Policing*.

**Branislav Simonović** PhD, is full professor of criminalistics at the School of Law at the University of Kragujevac, Serbia. He was awarded his PhD in 1991, his dissertation pertaining to criminal motivation. His primary fields of interest are community policing, strategic planning, intelligence led policing, corruption, some aspects of interrogation in police and courts, and forensic aspects of DNA. He published more than a hundred papers and several books: *Providing and Assessing a Statement in Police and Courts* (1997), *Criminalistics Handbook* (2004, 2012), and *Community Policing* (2006). He wrote chapters for many books published in Serbia and other countries. He presented papers at many international conferences (The Hague, Chicago, Prague, Valletta, Ayvalik, Saint Petersburg, Ljubljana, Zagreb, Budapest, Warsaw, and many others). He is engaged in practical community policing initiatives and is included in a regional commission for police control as a member of the civil community. He was an expert witness at the International Criminal Tribunal for Former Yugoslavia in The Hague (2007), and he was engaged in several projects of police reform in Serbia and Bosnia. He is recognized as an international expert on police and he cooperates with many university professors all over the world. He wrote on informal economy in Serbia and the relationship between informal economy and corruption (and political corruption) in Serbia. Dr. Simonovic lives in Kragujevac, Serbia, with his wife and son.

**Michael Theil** was born in Vienna, Austria. He earned an MBA with a major in transport, logistics, management, insurance, and information management in 1994. Dr. Theil earned honors in his studies. In 2001, he finished habilitation and became a university docent at the Vienna University of Economics and Business Administration. He is a member of the Board of Governors of the Association of University Professors, a member of the Senate and Works Council of the University Professors, and a cooperation delegate for partnership with different universities. Currently, he is an associate professor at the Institute of Risk Management and Insurance at the Vienna University. He has published numerous articles, reviews, and book chapters and is the author of *Crimes Against Insurances*. His specialty areas include accounting, general management, insurance, marketing, and quality management.

**Minoru Yokoyama** completed his BA in law and an MA in both criminal law and sociology at Chuo University in Tokyo. He finished his doctorate at Chuo University. He is a professor emeritus and former Dean of the Faculty of Law, and a former vice-president of Kokugakuin University in Tokyo. He is a president of the Japanese Association of Social Problems, a former president of the Japanese Association of Sociological Criminology, and a president of the Tokyo Study Group of Sociological Criminology. He is a member of Presidium of General Assembly of the Asian Criminological Society. He worked as a vice-chair of Local Arrangement Committee, 16th World Congress, International Society for Criminology, held in August 2011. He has presented numerous papers at national and international conferences and symposia, and had published numerous articles in professional journals.