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Reasons for Gaps in Crime Reporting: The Case of White-Collar Criminals Investigated by Private Fraud Examiners in Norway

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ABSTRACT

A private investigation is an examination of facts, sequence of events, causes for deviance, and responsibilities for negative incidents. Recent years have seen an increasing use of private internal investigations in terms of the assessment of financial irregularities. The form of inquiry aims to uncover vulnerabilities to unrestricted opportunities, failing internal controls, abuse of position, and any financial misconduct such as corruption, fraud, embezzlement, theft, manipulation, tax evasion and other forms of economic crime. When fraud examiners discover evidence of white-collar crime, they almost always leave it to their clients to decide whether or not to report crime to the police. We examine the gaps in white-collar crime reporting after fraud examination and reasons behind such decisions. In Norway, these gaps could be as high as 96% percent, as calculated in this article. Reasons for non-reporting include concerns over law enforcement interference with business and consequences of law enforcement, lack of trust in the police, and different perceptions of the seriousness of crime. We apply the theoretical approach pioneered by Sykes and Matza (1957) and demonstrate how techniques of neutralization apply to private fraud examiners' reasoning for non-reporting of suspected or detected white-collar crime. We also offer some possible policy-based solutions to reduce the identified gaps in reporting.

Keywords: financial crime, white-collar crime, crime reporting, private investigation, crime disclosure.

Biographies

Petter Gottschalk is Professor in the Department of Leadership and Organizational Behavior at BI Norwegian Business School in Oslo, Norway. He has published extensively on policing white-collar crime. Dr. Gottschalk has been CEO of several companies including ABB Data Cables and Norwegian Computing Center. Dr. Gottschalk received his MBA from the Technical University of Berlin (Germany), MSc from Dartmouth College and MIT (USA), and DBA from Henley Management College, Brunel University (UK).

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Reasons for Gaps in Crime Reporting: The Case of White-Collar Criminals Investigated by Private Fraud Examiners in Norway

INTRODUCTION

Are Blomhoff was a priest and the managing director of the Betanien Foundation in Norway. Two whistleblowers told their managers that Blomhoff had embezzled large amounts of money. They did not directly inform the chairperson of the board, Christian Hysing-Dahl, since it was not clear to the whistleblowers whether he was an ally of Blomhoff. When Hysing-Dahl learned about the offense, he was reluctant to report the crime to the police (Eikefjord 2015). Instead, he hired fraud examiners from auditing firm BDO (2014a) to conduct two private internal investigations. However, when the whistleblowers threatened to inform the media, even though they told the chairperson they wanted no police investigation, Hysing-Dahl went to the police six months after he had learned about the crime. Drammen district court later sentenced Blomhoff to 3 years in prison for embezzlement at the Betanien Foundation (Drammen tingrett 2014).

The Blomhoff case is not at all the only example of reluctance to report white-collar crime to the police. There seems to be quite a gap in crime reporting in the area of white-collar crime occurring in organizational settings. This article explores the following two sets of research questions:

- 1) *How likely are private fraud examiners to report to the police the evidence of wrongdoing they discover in their investigations? What does it tell us about the gaps in reporting?*
- 2) *What are the main reasons for private fraud examiners to avoid reporting the white-collar criminals to the police?*

First, this article explores gaps in crime reporting (Langton et al. 2012), with a specific focus on property crimes (Harrell and Langton 2013; Tcherni et al. 2014). Next, we describe

in more detail private fraud examinations (ACFE 2014; CFCS 2014; Gottschalk 2014), and define and provide some context about white-collar criminals (Schoepfer et al. 2014; Sutherland 1949). Then, we describe our theoretical approach that is rooted in the Sykes and Matza's (1957) techniques of neutralization and discuss how it applies to the potential lack of reporting of white-collar crime. Finally, a sample of private investigation reports in Norway is presented, and based on it, we attempt to answer the two sets of research questions posed above. The potential reasons for secrecy and non-disclosure to the police are identified, categorized, and discussed in the context of the neutralization techniques theoretical approach. Some policy implications and potential solutions are offered to deal with the identified problems.

Gaps in Crime Reporting

Tcherni et al. (2015) argue that there is a glaring gap in crime reporting in relation to the growing category of property crime perpetrated online. When fraudulent transactions are reported, it is often impossible to infer exactly how the information was obtained, or even how it was exploited. Insurance company requirements that victims report losses to the police may bias data in favor of higher value losses for those crimes where insurance payments are involved (Skogan 1984; Tarling and Morris 2010).

Gaps in crime reporting concern the “dark figure of crime” problem, that is, factors that cause reported statistics to diverge from and generally underrepresent the true nature and extent of crime. The differences between measures of crime reported to (and by) the police and actual crime are labelled gaps in crime reporting. For example, the National Crime Victimization Survey (NCVS) conducted annually in the United States on a large, representative sample of general population allows us to make several observations about gaps in crime reporting:

- 1) The type of crime that is reported to the police most reliably is motor vehicle theft – 83% of it was reported to the police in 2006-2010 (Langton et al. 2012:4).
- 2) The largest gaps in reporting – i.e., the smallest proportion of victims reporting their victimization to the police – exist for rape/sexual assault (35% was reported) and household property theft (33% was reported), according to NCVS data for 2006-2010 (Langton et al. 2012:4).
- 3) The main reasons for not reporting property victimization (theft, burglary, larceny, etc.) to the police are: “Police would not or could not help” (around 36% of those who did not report), and “Not important enough to victim to report” (another 30% of non-reporters), as documented by Langton and her colleagues (2012:4).
- 4) If we focus on the identity theft portion of the National Crime Victimization Survey, fewer than 10% of victims sampled by the NCVS in 2012 reported their victimization to law enforcement agencies (Harrell and Langton 2013:24). Tcherni et al. (2015) suggest that real gaps in reporting may be even wider, considering that not all victims of identity theft realize they have been victimized.

Moreover, since a sizable portion of property crime is perpetrated online, there are additional problems with underreporting of these crimes, besides the possible lack of awareness about victimization: online property crimes are often perpetrated against organizations, and thus it is very difficult to estimate their scope and reporting in the absence of concerted data collection (Tcherni et al. 2015).

In this article, we examine in more detail a specific type of property crime – white-collar crime – and discuss the reasons for its non-reporting. This type of property crime, just like online property crime, is often perpetrated against organizations, and thus it cannot be captured in victimization surveys of individuals. Unlike online property crime, white-collar crime is typically disguised as part of conducting legal business operations by an employee or

business owner where the victim might be one's own organization, another organization, or governmental agency.

There are certain parallels and contrasts that can be drawn between white-collar, online property crime, and street property crime, especially when comparing (non-)reporting patterns, reasons for non-reporting, and theoretical considerations related to crime reporting. We will explore in detail the main reasons why white-collar crime is not reported to the police.

In fact, the decision about reporting often rests with the professionals who detect or suspect white-collar crime first – private fraud examiners hired by companies in need of audits – and thus it is important to clarify the role of these examiners.

Private Fraud Examiners

Internal private investigations examine facts, sequence of events, and the causes of negative events as well as who are responsible for such events. Depending on what hiring parties ask for, private investigators can either look generally for corrupt or otherwise criminal activities within an agency or company, or look more specifically for those committing white-collar crime. In other situations, it is the job of the private investigators to look into potential opportunities for financial crime to occur, so that the agency or company can solve those problems in order to avoid misconduct down the road (Gottschalk 2014).

Internal investigations include fact-finding, causality study, change proposals, and suspect identification. Recent years have seen an increasing use of private internal investigations in terms of the assessment of financial irregularities. The form of inquiry aims to uncover unrestricted opportunities, failing internal controls, abuse of position, and any financial misconduct such as corruption, fraud, embezzlement, theft, manipulation, tax evasion, and other forms of economic crime (ACFE 2014; CFCS 2014).

Characteristics that can be attributed to a private investigation include a serious and unusual event, an extraordinary examination to find out what happened or why it did not happen, develop explanations, and suggest actions towards individuals and changes in systems and practices. A private investigator is someone who is hired by individuals or organizations to undertake investigatory law services. They often work for attorneys in civil cases. A private investigator can also be called a private eye, private detective, inquiry agent, fraud examiners, private examiners, financial crime specialist, or PI for short. A private investigator does the dirty work to find the answers to who committed the crime. Financial crime has become a major offense that private investigators are hired to find the solutions to in order to bring justice to the individuals affected.

Criminal investigation is a goal-oriented procedure for reconstructing the past. It is a method of creating an account of what has happened, how it happened, why it happened, and who did what to make it happen or let it happen. Criminal investigation is a reconstruction of past events and sequence of events by collecting information and evidence. An investigation is designed to answer questions such as when, where, what, how, who, and why, as such questions relate to negative events in the past. Investigations take many forms and have many purposes. Carson (2013) argues that the core feature of every investigation involves what we reliably know. The field of evidence is no other than the field of knowledge.

White-collar crime investigations are a specialized knowledge industry. Williams (2005) refers to it as the forensic accounting and criminal investigation industry. It is a unique industry, set apart from law enforcement, due to its ability to provide “direct and immediate responsiveness to client objectives, needs and interests” (Williams 2005:194). Unlike police “who are bound to one specific legal regime” (Williams 2005:194), the industry provides flexibility and a customized plan of attack according to client needs.

Private fraud examiners complete their work by providing clients with reports of investigations. Examples in the United States include the Powers et al. (2002) report on the Enron collapse, the Sidley (2010) report on corruption in procurement, the Valukas (2010) report on the Lehman Brothers collapse, the Valukas (2014) report on the General Motors ignition switch recalls, the Wilmer and PwC (2003) report on WorldCom accounting fraud, and the WilmerHale and PwC (2008) report on Walters embezzlement.

White-Collar Criminals

A white-collar criminal is typically a member of the privileged socioeconomic classes in society (Sutherland 1949) who is involved in illegal activities and commits nonviolent acts for financial gain (Gottschalk 2012). The white-collar criminal is a person of respectability who commits crime in a professional setting, where criminal activities are concealed and disguised in organizational work (Pontell et al. 2014). The criminal has power and influence, he forms relationships with other persons or professionals, which protects him from developing a criminal identity, and he enjoys trust from others in privileged networks. White-collar crime refers to offenses committed in an organization by those who indulge in dishonest activities, either by themselves or using agents, for financial gain (Schoepfer et al. 2014).

One out of many explanations provided for white-collar crime is the fear of falling in terms of a fear of losing what one has worked so hard to obtain (Piquero 2012). Given an opportunity to commit white-collar crime, certain personality characteristics such as low self-control increase the likelihood of committing an offense (Piquero et al. 2008).

Law enforcement targeted at white-collar criminals is non-aggressive and often discrete not only because of the upper-class affiliation. Another reason is white-collar defendants' ability to recruit top defense lawyers who apply symbolic defense in addition to substance defense, as well as information control, in their work for white-collar clients

(Gottschalk 2014). It is well known that having a well-qualified and possibly famous attorney increases one's chances of a favorable outcome in any legal dispute. Some individual white-collar offenders avoid criminal prosecution because of the class bias of the courts (Tombs and Whyte 2003). According to Pontell et al. (2014), some white-collar offenders may simply be too powerful to go to jail.

When white-collar criminals appear before their sentencing judges, they can correctly claim to be first-time offenders (Benson and Simpson 2015). According to Slyke and Bales (2013), theory and empirical research often have agreed that white-collar offenders benefit from leniency at the sentencing stage of criminal justice system processing. Croall (2007) argues that the term "crime" is contentious, as many of the harmful activities of businesses or occupational elites are not subject to criminal law and punishment but administrative or regulatory law and penalties and sanctions. Therefore, very few white-collar criminals seem to be put on trial, and even fewer higher-class criminals are sentenced to imprisonment.

Another reason for the low prosecution and conviction rate for white-collar criminals is the extraordinarily broadly and fuzzily defined offenses in criminal law for white-collar crime (Hasnas et al. 2010). In addition, it is often difficult to prove the intent (*mens rea*) required for criminal conviction (Podgor 2007; Green 2014). Many (especially those in the corporate world) view white-collar crime simply as risky business (Benson 1985; Will et al. 1998, Benson and Simpson 2015). Hence, there is a reluctance to charge top-level criminals, as was evident in the aftermath of the 2008 economic meltdown in the United States (Pontell and Geis 2013).

THEORETICAL FRAMEWORK

Criminals apply techniques in order to make them feel as though they have done nothing wrong. These techniques are called neutralization techniques, whereby the feeling of guilt is

neutralized. Neutralization theory, in its original formulation, was proposed by Sykes and Matza (1957) to explain how juvenile delinquents' desire to conform coexists with their deviance. Sykes and Matza proposed five techniques of neutralization:

1. *Denial of responsibility.* The offender here claims that one or more of the conditions of responsible agency were not met. The person committing a deviant act defines himself or herself as lacking responsibility for his or her actions. In this technique, the person rationalizes that the action in question is beyond his or her control. The offender views himself as a billiard ball, helplessly propelled through different situations.
2. *Denial of injury.* The offender seeks to minimize or deny the harm done. Denial of injury involves justifying an action by minimizing the harm it causes. The misbehavior is not really serious because no party suffers directly as a result of it.
3. *Denial of victim.* The offender acknowledges the injury, but claims that the victim is unworthy of concern. Any blame for illegal actions is unjustified because the violated party deserves whatever injury they receive.
4. *Condemnation of the condemners.* The offender tries to accuse his or her critics of questionable motives for criticizing him. According to this technique, one neutralizes his or her actions by blaming those who are the target of the action. For example, the white-collar offender deflects moral condemnation onto those ridiculing corporations by pointing out that they engage in similar disapproved behavior.
5. *Appeal to higher loyalties.* The offender denies the act was motivated by self-interest, claiming that it was instead done out of obedience to some moral obligation. This technique is employed by those who feel they are in a dilemma that must be resolved at the cost of violating a law or policy. In the context of an organization, an employee

may appeal to organizational values or hierarchies. For example, an employee could argue that he or she has to violate a policy in order to get his or her work done.

Personal neutralization of misconduct and crime is not limited to white-collar criminals. However, it seems that these techniques are applied by such criminals to a great extent (Benson 1985; Piquero et al. 2005; Gottschalk and Smith 2011; Benson and Simpson 2015).

However, in this paper, we argue that the same techniques of neutralization also apply to the reasoning of private fraud examiners when they make decisions as to whether they should report the suspected crime to the police. Their desire to conform to the rules makes them shift the responsibility for reporting possible illegal behavior to others – most likely, to the client who ordered the investigation.

DATA AND METHODS

To find answers to our two research questions – *How often are white-collar criminals investigated by private fraud examiners not reported to the police and why* – we applied an approach of asking for private investigation reports. To ask for a report, we needed to know that there was one. Our sources of detection of reports included media stories, rumors, and personal contacts. During the year of 2014, we were able to access a total of 35 fraud examination reports in Norway, as listed in Table 1.

[Table 1 about here]

Our sample was obtained through non-probability purposive sampling and thus cannot confidently be said to represent all private investigations in a given country (Norway). At the same time, the method of obtaining the reports included enough versatility in identifying the private investigation cases where reports were written, and seeking out these reports. Thus,

our sample can serve as a tentative way to get an approximate idea of the variety of white-collar crimes being first detected or suspected by private examiners.

Norway is similar to other developed countries in Europe and North America in terms of its business practices. Norway is a small country of five million inhabitants. In terms of its size, climate, standard of living and demographics, Norway might best be compared to the state of Connecticut in the United States. Therefore, this sample might be cautiously taken to be representative of white-collar investigations in general in the Western world.

The second column in Table 1 lists the client organization where the fraud examination was conducted, while the third column lists the firm conducting the investigation. The fourth column describes white-collar crime suspicion that was to be investigated by fraud examiners. Column five lists the number of pages in the internal investigation report. Some of these reports are summary reports. For example, the ten-page report from BDO (2014a) is a summary report, while the complete report has 150 pages. The chairperson of the board, Christian Hysing-Dahl, was never willing to disclose the complete report to us.

The two final columns in Table 1 are of particular interest to our research. Whether the case was reported to the police is indicated with 'Yes' or 'No'. Most cases were not reported to the police, because investigators did not find sufficient evidence to claim that criminal offense had occurred. 11 out of 35 cases were reported to the police (31%). If the case was reported to the police, it might end up in conviction (Yes) or dismissal (No). In our sample, 7 out of 11 reported cases resulted in conviction, indicating that 64 percent of all cases reported to the police ended up in prison sentences for white-collar criminals.

Table 1 lists all reports that we were able to detect and obtain as researchers in Norway during the year 2014. A number of additional investigation reports were detected, but they were not disclosed to us. We were denied access to reports at Din Baker bakery chain

investigated by PwC, Finance Credit money collection firm investigated by Ernst & Young, Spitsbergen mining company investigated by PwC, Norwegian Parliament pension fund investigated by a university professor, Nopec oil exploration company investigated by a law firm, Veidekke construction company investigated by Ernst & Young, Yara fertilizer producer investigated by law firm Wiersholm, ISS cleaning services investigated by PwC, and several others investigated by fraud examiners. Some client companies did not respond to our requests at all. Others provided reasons for denying the reports. Approximately 20 detected private investigation reports were not disclosed to us.

We can assume that these 20 reports were neither disclosed to us nor to the police. More importantly, the number of investigation reports never detected by us is much larger. We can assume that about 100 knowledge workers in law firms, auditing firms and other professional service firms in Norway work full-time on private internal investigations. If three investigations are completed per person per year, then there are an estimated 300 reports produced each year. When comparing our detected 55 reports to the estimated total of 300 reports, we get a fraction of only 18 percent that become known to us, and 12 percent (35 reports) ending up in the public domain.

We have no reason to assume that the suspected crimes investigated in the reports disclosed to us are any more serious than the possible crimes investigated in the reports kept from us. It is often the case that, as in the opening example to this article, crime only gets reported to the police if whistleblowers come forward threatening to make their information public. Their personal courage is likely a better indicator of reporting to the police than the severity of misdeeds the whistleblowers want to disclose.

Investigators argue that reports are the property of their clients, while clients argue that there are circumstances that prevent them from disclosing reports. In our search for private investigation reports, we met a variety of reasons why we were denied access to investigation

reports. The reasons for secrecy fall into three main categories. First, there were reasons important to the company being investigated. Second, there were reasons important to the investigating firm. Finally, there were reasons important for the relationship between the investigated and the investigator. These reasons for the denial of report disclosure are listed in Table 2.

[Table 2 about here]

RESEARCH RESULTS

In our sample of 35 detected and accessed fraud examination reports, 11 cases (31%) were reported to the police. However, this figure cannot be taken to represent the true gaps in crime reporting since the main reason we have these 11 cases in our sample is because they were reported to the police. We have estimated that about 300 private investigation reports are produced annually by fraud examiners in Norway. This number can serve as a conservative estimate of white-collar crime cases since an unknown but probably a non-trivial number of white-collar crimes like corporate fraud is not detected (Dyck et al. 2013; Zakolyukina 2014).

Thus, even assuming that some of these 300 reports are based on unfounded suspicions, it is more likely that they still considerably underrepresent white-collar crimes actually committed. However, let's go with this lower, conservative estimate of just 300 cases of suspected corporate fraud. If only 11 of them were reported, it means that 3.7% of all detected corporate crimes were reported to the police.

We can take an alternative approach to estimating a true amount of corporate fraud. Based on a clever use of a natural experiment (the fall of Arthur Andersen audit firm), Alexander Dyck and his colleagues (2013) were able to estimate the incidence of corporate fraud by comparing the rate of fraud detection by the new auditor compared to that detected by Arthur Andersen, and they concluded that corporate fraud is likely to be committed by

14.5% of businesses. There are about 416,000 businesses in Norway, according to the Norwegian Register of Business Enterprises (Brønnøysund Register Centre (BRC) N.d.). The Dyck et al.'s (2013) incidence estimate would imply that over 60,320 of businesses in Norway are likely to engage in some type of fraudulent business activities. 300 seems like an impossibly low figure compared to the 60,320 estimate. If we go with this upper estimate of 60,320 possible fraud, only about .5% of these (300) are investigated by private fraud examiners, and, as we stated above, less than 4% of these suspected crimes investigated by fraud examiners are reported to the police. Clearly, our calculations support the initial assumption in our paper that the gap in crime reporting for white-collar criminals is substantial – over 96%.

Further, as we see from Table 1, 7 of the 11 reported cases (or 64% of cases reported to the police), ended in convictions of white-collar criminals in court. These are the only cases of corporate fraud brought to conviction in Norway. Thus, only about 2% of white-collar criminals identified/suspected annually in private investigations (7 out of the assumed 300) are brought to justice. And if we accept the possibility that over 60,320 businesses are involved in some sort of corporate fraud, 7 cases represent the rate of criminal prosecution and punishment of about .01%, or 1/100th of 1% of possible criminal activity.

To find answers to our second research question – *Why are white-collar criminals investigated by private fraud examiners not reported to the police?* – we base our findings on the analysis of our experience from detecting and asking for investigation reports in 2014.

Before we describe the main categories of reasons that private examiners do not report the detected or suspected white-collar crime to the police, we have to point out the key factor that determines the way private examiners see their responsibilities and options available to them. This key factor has to do with *control*. By hiring examiners from an auditing firm or

law firm, the client organization pays for the investigation and is owner of the investigation report. Thus, the client has complete control over information flows to and from the investigation. As a result, the reasoning of private fraud examiners and the companies they investigate lines up for the next three groups of reasons for non-reporting.

First, there is a group of reasons concerned with business and enterprise management and maintaining control over the situation, where the company would like to avoid interference with business:

1. *Reputation.* If it becomes known that the police are investigating the case, it could lead to negative publicity and financial loss, in line with disclosure as described above. For example, law-abiding employees who are attractive on the labor market could choose to leave. Qualified external candidates could choose not to apply.
2. *Exclusion.* As long as the company is under investigation by the police, the company may be put on hold for contracts in both the public and private sectors. Customers will generally be more reserved towards the company. The same can happen with suppliers because they are uncertain about the outcome of a police investigation.
3. *Effort.* Crime is not reported because it takes too much time and effort. The police will ask for all kinds of documentation and access to computers. If the police opens an investigation, then key employees will have to spend time in police interviews, and executives will have to spend time explaining to police officers how the organization operates. Instead of spending time with and for the police, the business prefers to spend time with customers and developing new products.

Next, there is a group of reasons concerned with consequences of law enforcement (LE):

4. *LE Penalty.* Reaction against the company may be a reason for not going to the police. The company hopes it can keep the matter hidden and thus not losing money as they

would have to pay a potential fine. Generally, the consequences of going to the police are considered greater than keeping the matter hidden.

5. *Protection from LE.* Shielding both individuals and the organization from police investigation is yet another reason for not disclosing evidence of white-collar crime to the police. In a police investigation, people other than those who were subject to negative attention might emerge in a bad light and possibly end up being indicted, prosecuted, and convicted.
6. *Bargaining with LE.* Plea bargaining is available to a varying degree in different countries. Where this option is limited or nonexistent, people will be even less reluctant to report suspicions of white-collar crime to the police fearing the severe consequences of prosecution. (A plea bargain is an agreement in a criminal case between the prosecutor and the defendant whereby the defendant agrees to plead guilty to a particular charge in return for some concession from the prosecutor, usually a reduction in charges and/or more leniency in sentencing.)

Third, there is a group of reasons concerned with lack of trust in the police:

7. *Police Passivity.* Police often demonstrate passivity when approached about possible offenses. Many cases are dismissed without investigation. A survey by Norway Security Council (2014) shows that 75 % of companies that responded to the survey agreed with the statement that crime is not reported because the police usually dismiss the case without proper investigation. However, notice that in our current study, 64% of cases referred to the police resulted in convictions. Thus, this reason might have more to do with perception than reality.
8. *Police Competence.* Investigating white-collar crime suspicions requires highly specialized expertise, which is often not available in the police at the time a potential financial crime is reported to law enforcement. For years, forensic accountants from

the private sector have been used by government agencies in crime investigations and prosecutions.

9. *Police Capacity*. There is an inability of the state to unilaterally cope with the rising tide of economic crime due to limited resources. Police officers with training in financial crime investigations are hired by professional services firms where they can double or triple their salary as financial crime specialists.
10. *Police Failure*. Just like a private investigation can fail to establish the facts, so can police investigations fail to find the truth about a negative incident. If police investigations are expected to end up in nothing, why bother involve the police, some organizations may certainly argue. Again, this perception might not reflect the reality correctly, since in about two thirds of the cases reported to the police in our sample, the perpetrators were brought to justice. Alternatively, it can be that these were the cases with the strongest evidence of wrongdoing and thus they do not represent the other cases that were not brought to police attention.

Notice that, as we stated in the *Gaps in Crime Reporting* section above, the main reason for individuals to not report their property victimization to law enforcement is very similar to the above-described reasons: “Police would not or could not help”.

Finally, there is a reason for non-reporting that is concerned with a “grey-area” judgment of whether the situation actually constitutes a crime. Moreover, this is one reason that is likely to apply both to the client organizations being investigated and to the private investigators, independently from their duties to their clients:

11. *Trifle, or “grey area”*. What happened is considered to be an insignificant issue.

White-collar offenders operate with relative impunity because of widespread apathy in both private and public contexts. The organization has tolerance and

leniency towards internal criminals in trusted positions. For both insiders and outsiders, it is not quite clear where the line can be drawn separating aggressive or inventive business practices from illegal activities.

Applying Sykes and Matza's techniques of neutralization, we can classify the first group of reasons for the failure of private investigators and their clients to report their findings to law enforcement (Reasons 1 through 3, related to interference with business) as falling into the category of "**denial of responsibility**": the client owns the report and thus they have the duty to decide what to do with it, especially since it is their organization that will bear the brunt of burden related to a possible police investigation. The responsibility of a business is to make a profit in the market place. It is not the responsibility of a business enterprise to practice or contribute to law enforcement in society. There is nothing in it for an organization to see a former executive receive a conviction for white-collar crime in court and sentenced to prison.

The second group of reasons (Reasons 4 through 6, related to the consequences of law enforcement) seems to reflect the "**appeal to higher loyalties**": the loyalty of private fraud examiners to the client is higher than their loyalty to enforcing laws. Similarly, the loyalty of the client to organizational goals and strategies is higher than their loyalty to enforcing laws.

The third group of reasons (Reasons 7 through 10, related to distrust of police) is a variation on Sykes and Matza's "**condemnation of the condemners**": police are likely incompetent, overburdened and slow-to-react, and would not be able to do much so why even bother turning to them. The police are not in a position to condemn business enterprises and other organizations, as well as private investigators, for not disclosing crime reports to them, as the police are often reluctant and incompetent to investigate. Private investigators thus condemn the police as "condemners".

Finally, the last reason (Reason 11, concerning the lack of clarity on whether the uncovered evidence points to an illegal activity), falls into the categories of “**denial of injury**” or “**denial of the victim**”: private examiners may interpret the wrongdoing as just a way of doing business that did not hurt anybody or that is done by other companies as well, even if these other companies could have been the potential victims. In many cases, the client organization is in itself the victim, and jailing offenders does not help recovering the loss. Rather, a private and secret settlement with the offender can be more profitable to the former employer.

DISCUSSION

Many fraud examiners consider their reports as the sole property of their clients, since clients pay for the job and for the result in the shape of investigation reports. They consider their work as a piece of consulting assignment or legal advice, which might be protected by the client-attorney privilege (Schechtman 2014).

As a key issue in private investigations, disclosure is required to ensure criminal justice is served by avoiding privatization of law enforcement or prosecution and conclusion (for example, fired from the job and convicted to pay back of money). Therefore, all reasons for secrecy are indeed questionable in cases of obvious crime suspicions. To avoid the discomfort of concealing crime from law enforcement, the private fraud examiners are likely using the techniques of neutralization: denial of responsibility (for the reasons for secrecy including reputation, exclusion, and effort), appeal to higher loyalties (protecting the client from LE penalty and damage), condemnation of the condemners (police passivity, questionable competence and capacity, and perceived police failure), and denial of injury or denial of the victim (when the situation is interpreted as trifle or “grey area” rather than criminal activity).

Several of these reasons fall into the same two main categories that are primarily listed by property crime victims for not reporting the crime to the police: “Police would not or could not help” (lack of trust in the police), and “[The situation is] not important enough to report”. Another group of reasons – concern for consequences of law enforcement – closely resembles a distant third reason nominated by individuals in the NCVS for non-reporting to the police: “Fear of reprisal or getting offender in trouble”. And finally, what seems to be the key group of reasons concerns business and enterprise management – interference with business – and is uniquely connected with corporate considerations.

Secrecy to the police is a far greater question in society than cost-benefit for the company involved. Private investigations are of concern because they involve a privatization of police investigations of potential punishable acts.

While some private investigations come up with trivial findings as perceived by the client, it happens that the business firmly believes there has been a crime and goes to the police with their findings. But then the police may dismiss the case, which evokes very negative reactions from the ones who reported the offense. Four such cases are listed in Table 1.

More frequently, however, the opposite seems to occur: the client does not think it is serious enough to go to the police. When the police learn about the case, then it turns out to be serious enough. Seven out of eleven (64%) cases led to prison sentences.

When the police in Norway learned about a communication company having bribed officials in Romania to get a contract, it turned out that PricewaterhouseCoopers had already investigated the matter and found misconduct. But top management at the communication company Kongsberg Group had decided not to disclose the investigation report (Hovland 2014).

Williams (2005) suggests the introduction of more rigorous protocols for the transfer of cases between the public and private sectors, as well as the enactment of clearer guidelines for working relationships between industry practitioners and the police.

We suggest that there are two ways to counteract the techniques of neutralization and induce the private investigators to report the crimes they have potentially uncovered to the police: “carrots” and “sticks”. “Carrots” could be some financial or other incentives to provide for private investigators reporting the crime: for example, a portion of recovered monetary value can be paid to the private investigator and his/her audit company (sort of a finder’s fee). “Sticks” could be stiff financial penalties for not disclosing the suspected white-collar crime to the law enforcement authorities. Alternatively, there can be legal mandates put in place to require reporting of detected or suspected white-collar fraud, similar to the mandatory corporate sustainability reporting instituted in many countries throughout the world and turning out to be beneficial rather than damaging to business (see Ioannou and Serafeim 2014).

CONCLUSION

The gaps in white-collar crime reporting after fraud examinations in Norway might be as high as over 96 percent, as calculated in this article. Reasons for these gaps can be found in avoidance of law enforcement interference with business, fear of consequences of law enforcement, lack of trust in the police, and different perceptions of the seriousness of crime.

Based on Sykes and Matza’s theoretical approach, we argue that private fraud examiners are likely to use the techniques of neutralization to support their decisions about not reporting the crime to the police. They see their client – the organization where crime has occurred – as the party responsible for the type of decisions related to notifying law enforcement authorities.

The rule of law and criminal justice is secured in constitutional states by public prosecution and courts that are open to everyone to observe. If there are suspicions of violations of criminal laws in a country, it is important that information about suspects become known to public authorities such as police investigators and public prosecutors. Thus, we offer some potential solutions to remedy the situation. Concerted legislative efforts can create positive (“carrots”) or negative (“sticks”) incentives for private fraud examiners and their audit companies to report suspected white-collar crime. Disclosure of investigation reports is a must in cases of criminal offences. Preferably, investigation reports should not only be disclosed to the police but also to citizens through the media and to researchers such as ourselves.

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Table 1. Characteristics of reports from financial crime specialists in private investigations in Norway

#	Case	Investigator	Suspicion	Pages	Police	Prison
1	Adecco <i>Nursing and cleaning services business</i>	Wiersholm (2011) law firm	Exploitation of work force in nursing home in terms of low wages and inhuman working hours	22	No	-
2	Andebu kommune <i>Municipality</i>	BDO (2014c)	Disqualification of mayor in real estate transactions	23	No	-
3	Ahus <i>Public hospital</i>	PwC (2013a) auditing firm	Buying expensive geographical information system services	15	No	-
4	Betanien <i>Methodist Church Foundation</i>	BDO (2014a) auditing firm	Embezzlement by chief executive officer	10	Yes	Yes
5	Briskeby <i>Football stadium</i>	Lynx (2011) law firm	Over charging for construction work at football stadium	267	No	-
6	Eckbo <i>Family foundation</i>	Dobrowen and Klepp (2009) law firm	Executives in ideal foundation for personal gain	119	No	-
7	Fadderbarna <i>NGO for children</i>	BDO (2011) auditing firm	Excessive administration costs in NGO	46	No	-
8	Forsvaret <i>Army</i>	Dalseide (2006) public investigator	Suspected corruption at procurement of information technology	184	No	-
9	Furuheim <i>Church foundation</i>	Dalane and Olsen (2006) law firm	Executives in church foundation for personal gain	164	Yes	Yes
10	Gassnova <i>Carbon capture and storage</i>	BDO (2013a) auditing firm	Irregular procurement procedures by employees	27	No	-
11	Hadeland og Ringerike Bredbånd <i>Broadband communication company</i> Hadeland Energi <i>Utility company</i>	PwC (2014a, 2014b)	Embezzlement by chief financial officer	32 25	Yes	Yes
12	Halden ishall <i>Sports ice arena</i>	KPMG (2012) auditing firm	Excessive cost overrun in reconstruction	121	No	-
13	Halden kommune <i>Municipality</i>	Gjørsv and Lund (2013)	Manager in department of planning and construction suspected of corruption	46	No	-

14	Kraft & Kultur <i>Power utility company</i>	Ernst & Young (2012)	Chief executive officer manipulated financial results	31	Yes	Yes
15	Kragerø Fjordbåtselskap <i>Shipping company</i>	Deloitte (2012)	Chief executive suspected of abuse of company funds	109	No	-
16	Langemyhr <i>Construction company</i>	PwC (2008a) auditing firm	Fraud by overbilling city work in hours	26	Yes	No
17	Lindeberg <i>Nursing home</i>	Kommune-revisjonen (2013) auditing service	Outside authority of personnel	92	No	-
18	Lundegruppen <i>Transportation company</i>	Bie (2012) law firm	Fraud and tax evasion for 30 million US dollars	86	Yes	Yes
19	Moskvaskolen <i>Norwegian school in Moscow</i>	Ernst & Young (2013a, 2013b) auditing firm	Private living expenses for dean covered by school	52 23	Yes	No
20	Norges Fotballforbund <i>Football association</i>	Lynx (2013) law firm	Football players changing clubs without clubs paying transfer money	48	No	-
21	Norges Idrettsforbund <i>Sports Association</i>	BDO (2014b)	Chairperson suspected of involvement in corruption	4	No	-
22	Omsorgsbygg <i>City of Oslo nursing home project in Spain</i>	PwC (2009) auditing firm	Abuse of public money spent on friends in Spain to build a local hospital for Norwegians	92	No	-
23	Norsk Tipping <i>Public betting firm</i>	Deloitte (2010) auditing firm	Financial relationships between employees and external firm	61	No	-
24	Oslo Vei <i>Road construction company</i>	Kvale (2013) law firm	Chairman and CEO suspected of fraud after bankruptcy	53	Yes	No
25	Romerike Vannverk <i>Public water supply</i>	Distrikts-revisjonen (2007)	Chief executive suspected of corruption and embezzlement	555	Yes	Yes
26	Samferdselsetaten <i>Public transportation</i>	PwC (2007)	Suspicion of kickbacks from taxi owners for licenses	88	No	-
27	Stangeskovene <i>Private forest property</i>	Roscher and Berg (2013)	Board members controlling share sales	94	No	-
28	Stavanger kommune <i>City of Stavanger project for Turkish children</i>	PwC (2013b) auditing firm	Smuggling of adopted children out of Turkey financed by the city of Stavanger	14	Yes	No

29	Sykehuset Innlandet <i>Hospital</i>	Dauidsen and Sandvik (2011)	Chief executive suspected of employment violations	15	No	-
30	Terra <i>Cities investing in bonds</i>	PwC (2008b) auditing firm	Outside authority of city management	52	No	-
31	Troms Kraft <i>Power supply company</i>	Nergaard (2013) consulting firm	Accounting manipulation in subsidiary and illegal political party support	663	No	-
32	Undervisningsbygg <i>School maintenance agency</i>	Kommune-revisjonen (2006a, 2006b) auditing service	Fraud by property managers in the City of Oslo	36	Yes	Yes
33	Verdibanken <i>Religious bank</i>	Wiersholm (2012) law firm	Investment fraud by bank executive	5	No	-
34	Videoforhandlere <i>Video film distributors and dealers</i>	BDO (2013b) auditing firm	Subsidies paid to video publishers	20	No	-
35	World Ventures <i>Lottery company</i>	Lotteritilsynet (2014) gaming authority	Ponzi scheme in betting firm	17	No	-

Table 2. Reasons for denial of disclosure of private investigation reports to the public

Reasons important for the investigated company	Reasons important for the investigating firm	Reasons important for the investigator-client relationship
<i>Damage.</i> The private investigation report includes business secrets that might be damaging to disclose to competitors.	<i>Confidentiality.</i> Lawyers and other investigators require respect of the client-attorney privilege similar to medical doctors and psychologists.	<i>Suspicion.</i> The investigation report describes suspicion towards individuals, which the client neither chose to follow up nor report to the police.
<i>Disagreement.</i> Executives in the client organization disagree how to interpret the investigation report.	<i>Error.</i> Serious flaws, mistakes, errors and shortcomings can be found in the investigation report, which investigators do not want others to find out and learn about.	<i>Packaging.</i> The investigation report is impossible to read because of lack of clarity in its presentation.
<i>Protection.</i> Many key individuals in the organization have provided sensitive information to the investigators. They need protection.	<i>Accusation.</i> A number of unfounded accusations against individual persons can be present in the investigation report.	<i>Termination.</i> The internal investigation was never completed.
<i>Workload.</i> Before possible disclosure, a number of words need to be blacked out, which represents too much work.	<i>Failure.</i> Investigators were unable to answer the questions formulated by the client in the mandate, and the investigation was thus a failure.	<i>Evidence.</i> Findings from a private investigation can lose its value as evidence in a following police investigation and prosecution in the criminal justice system, if disclosed to the public.
<i>Discretion.</i> Top executives who initiated the investigation do not like to see information about themselves being disclosed.	<i>Misconduct.</i> Investigators ignored or violated protection against self-incrimination and other ethical guidelines for professional examinations.	<i>Sensitivity.</i> Both client and investigator are afraid of breaking privacy law because of sensitive personal information in the report.
<i>Property.</i> The client has paid investigators for the report and feels no obligation to disclose it to others.	<i>Criticism.</i> Investigators do not like the report to be exposed to criticism by researchers and others.	