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Entitled to embezzlement? The case of successful executives working for rich heirs

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ABSTRACT

In family firms, there is a distinction between family members and nonfamily members. Research reviewed in this article indicates that family firms tend to be operated to enhance the well-being of owning families and their members. Nonfamily executives are often treated as second class individuals in the organization. There is an asymmetrical distribution of power among family and nonfamily. From the theory of convenience, we apply equity theory in the motivational dimension, principal-agent theory in the opportunity dimension, and neutralization theory in the willingness dimension to shed light on deviant behaviors by nonfamily executives in family firms. We present two case studies from Norway – a former CEO and a former CFO in family firms – who both were sentenced to prison for embezzlement.

Keywords: White-collar crime, deviant behavior, family firms, convenience theory, embezzlement.

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Entitled to embezzlement? The case of successful executives working for rich heirs

INTRODUCTION

Claiming entitlement to financial crime is one of the neutralization techniques applied by white-collar offenders. They claim to be in their right to do what they did, perhaps because of a very stressful situation or because of some misdeed perpetrated by the victim. Financial crime occurs in defense of fairness, which is based on the justification that if the rule-breaking is viewed as fair, one should feel no guilt when carrying out the action (Siponen and Vance 2010; Sykes and Matza 1957). Entitled implies believing oneself to be inherently deserving of privileges or special treatment.

Some executives identify themselves strongly with the organization and regard themselves as the reason for business success. This phenomenon defined as narcissistic identification (Galvin et al. 2015) is particularly interesting when executives work in family-owned enterprises. Rich heirs who have inherited the business without much effort or contribution benefit from hard-working executives in the business that makes them even richer. From a fairness point of view, executives may feel that it is unfair to make heirs even wealthier when there is no succession of capable heirs in the business.

This article addresses the research question: *Why do some executives feel entitled to embezzlement in family-owned firms?* Based on motivational characteristics, neutralization techniques, and the theory of convenience, this article presents two case studies from Norway, where a chief executive officer (CEO) and a chief financial officer (CFO) respectively embezzled their employers. The case studies are based on extensive media coverage and court documents.

White-collar crime propensity is influenced by a number of factors such as greed (Goldstraw-White 2012), strain (Langton and Piquero 2012), goal orientation (Jonnergård et al. 2010),

neutralization (Sykes and Matza 1957), morality (Craig 2018), and differential association (Sutherland 1983). Convenience theory defines three dimensions that make white-collar crime attractive (Gottschalk, 2017). First, there is a motive for organizational or personal gain. Next, there is an organizational opportunity to commit and conceal financial crime. Third, there is a personal willingness for deviant behavior to commit crime. In this article, we select from convenience theory the sub-theory of equity from the motivational dimension, the sub-theory of principal and agent from the organizational dimension, and the sub-theory of neutralization from the willingness dimension.

MOTIVATIONAL CHARACTERISTICS

In white-collar crime, there are many potential motives that can be caused by threats or opportunities as defined by convenience theory (Gottschalk 2017). Threats include the threat of bankruptcy, the threat of job loss, and the threat of losing a contract. Opportunities include more sales, higher profits, faster promotion, and bigger personal spending. In this article where we study the case of successful executives working for rich heirs, we focus on motives that can be derived from equity theory. If executives perceive that there is equity and justice within the exchange relationships they are involved in with owners, then they experience feelings of contentment that results in positive reactions (Burrai et al. 2015: 452):

An actor invests in a situation that involves the presence of another actor who, at the same time, invests their own resources and also expects certain outcomes. Each actor expects some level of fairness and equity from the exchange; otherwise, the relationship will be considered unbalanced. (...) When equity is not perceived, there is a desire whether conscious or subconscious to take remedial action to make the situation more equitable.

Equity theory can explain how individuals feel entitled to illegal redistribution of wealth if the current distribution is perceived as unfair. Individuals may compare their job inputs and outcomes with those of others and then respond to eliminate any perceived inequalities. If a hired CEO in a family-owned business feels that he or she makes the family much richer without receiving relevant compensation for one self, then the CEO can feel entitled to try to eliminate some of the inequality.

It is important to understand how equity theory explains behavior in the workplace. An employee compares his or her work efforts to another person or group of persons chosen as a reference. A situation evaluated being without equity, will initiate behavior to reestablish equality and to remove the feeling of discomfort (Leigh et al. 2010).

Equity theory proposes that individuals perceiving being unfair rewarded will feel distressed and therefore try to restore the perception of equity. The construct of equity sensitivity suggests three different orientations for employees to balance between input and output in organizations; the Benevolent, the Equity Sensitive and the Entitled. A study conducted by Leigh et al (2010) stated that the Entitled “are clearly concerned with how much money they will make”. The general preference of an individual, perception of equity, in case of the Entitled with a preference for over-reward is believed to be a trait. A trait perspective implies both explaining and predicting behavior in organizations (Huseman et al. 1987).

Organizational setting, however, may also influence an individual’s equity sensitivity level, as employees with advanced education might develop abstract moral principles differentiating themselves from rules, implementing their own autonomous principles, as well as constructing personal opinions of what is right and what is wrong (Roehling et al. 2010).

An executive in a family-owned business where family members have inherited the business without making much of a contribution can create a strong motive for hard-working executives to enrich themselves if they do not feel properly paid by the family. The

comparison is not internal among executives, but rather between executives and owners. Equity theory suggests that individuals may choose from one or more different referents – or standards – in determining the equitableness of their pay (Martin and Peterson 1987). In this article, we focus on the comparison with owners who have inherited the business. We assume that executives in family-owned businesses select referents for equity comparisons among family members who are involved in the business. Generally, equity theory suggests that selection of referents is a function of both the availability of information concerning certain referents and their attractiveness or relevance for a comparison. The attractiveness of a referent can be related to its instrumentality in satisfying needs.

Vardaman et al. (2018: 291) found that family-centric priorities of family firms often disadvantage nonfamily employees:

Family businesses differ from their nonfamily counterparts in many ways. Family firms often focus on preserving socioemotional wealth (SEW) by ensuring a familial successor and managerial altruism toward family members. Although socioemotional concerns often take primacy, attracting and retaining qualified nonfamily employees is also important for the success and survival of family firms. However, this SEW-centric focus problematizes nonfamily employee retention because it often leads to their unfair treatment. Research suggests nonfamily employees are often treated as “second class citizens” and mistreated or even exploited by the family.

If rewards and other practices are unfair for nonfamily executives in family businesses, then deviant behavior in terms of embezzlement and other forms of white-collar crime become more relevant and attractive. It is a matter of restoring some kind of equity. Given a motive and willingness, the organizational opportunity to commit and conceal financial crime can also be greater in family-owned businesses because of heightened trust (Vardaman et al. 2018: 293):

Research suggests the synthesis of family and firm identities often become the shared identity of the organization, answering questions about “who we are” and “what we do” as a family firm. Family members may realize some of the advantages resulting from their familial status in the business, such as heightened trust and communication.

However, the advantages enjoyed by family members in terms of trust can also have the consequence of lacking trust for nonfamily executives and thus reduce the organizational opportunity for crime. Also, due to social interactions, nonfamily executives may come to feel like family, sharing a heightened loyalty that is typically a characteristic of family members, and thus reduces the willingness to commit crime. The involvement of nonfamily executives in relationships with family members can foster identification with the family business and ultimately reduce the willingness for deviant behavior (Marler and Stanley 2018).

Chrisman et al. (2018) support the idea that the organizational opportunity can be greater in family firms since informal governance tends to be the practice. Such governance relies on social control mechanisms, positive ones such as mutual trust, shared attitudes, and common values.

Neckebrouck et al. (2018) phrased the question: Are family firms good employers? They found family firms compared to nonfamily firms offer lower compensation, invest less in employee training, and exhibit higher voluntary turnover and lower productivity.

NEUTRALIZATION TECHNIQUES

By applying neutralization techniques, white-collar criminals think they are doing nothing wrong (Stadler and Benson 2012). They deny responsibility, injury, or victim. They condemn the condemners. They claim appeal to higher loyalties and normality of action. They claim entitlement, and they argue the case of legal mistake. They find their own deviant behavior

acceptable. They may argue that a dilemma arose, whereby they made a reasonable tradeoff before committing the act (Siponen and Vance 2010).

Such claims enable offenders to find crime convenient. The theory of convenience argues that faced with strain, uncertainty and problems, people tend to choose paths of least resistance, even when some paths represent violations of the law. Convenience is a relative concept where the extent of convenience orientation influences deviant behavior and willingness to commit crime (Gottschalk 2017).

Some white-collar offenders are narcissists. Narcissists exhibit an unusual trust in themselves, believing that they are uniquely special and entitled to more benefits than are legitimately available to them (Ouimet 2009, 2010). Combined with narcissistic identification (Galvin et al. 2015), executives in a family-owned business may think that whatever profits are made in the business belong to them.

Galvin et al. (2015) studied a number of well-known white-collar offenders in the United States and found that many of them identified themselves so strongly with the organization that they regarded themselves as the core of the business. This phenomenon of narcissistic identification with the organization enable executives to think that there is really no difference between personal wallet and the wallet of the business. Such a strong identification with the performance of the organization can in itself lead to a higher level of white-collar crime.

When the organization is perceived as completely dependent on one's personal resources, the executive may argue that he or she is entitled to enrichment at the expense of the owners who contribute little or nothing anyway.

Narcissism is a personality trait that is characterized by arrogance, self-absorption, entitlement, and hostility. Narcissists exhibit an unusual belief in their personal resources and abilities (Judge et al. 2009). They may feel entitled to abuse company funds. They may feel

entitled to the lifestyle enjoyed by rich heirs for whom they work. They claim entitlement to illegal action because of the situation.

Among the many neutralization techniques (Sykes and Matza 1957) known from the willingness dimension in convenience theory (Gottschalk 2017), some stand out in the case of executives who enrich themselves at the expense of owners who inherited the business. First, executives refuse victim from crime. There is nobody suffering from the action. Family members who have inherited the wealth are already rich enough. Any blame for illegal actions are unjustified because the violated party deserves whatever injury they receive.

Next, executives condemn family members as condemners in the case of detection. According to this technique of condemning the condemners, executives neutralize own actions by blaming those who were the target of the misconduct. Offenders deflect moral condemnation onto those ridiculing the misbehavior by pointing out that they did not deserve whatever they inherited, because it was quite random that they ended up as children of rich parents.

Third, executives claim entitlement to action. Offenders claim to do what they did, because of a very stressful situation or because of very good results that the owners did not appreciate sufficiently. This is in defense of contingency, which is based on the justification that if the rule-breaking is what it takes, one should feel no guilt when carrying out the action.

Finally, offenders may claim role in society, where it might be a natural maneuver among elite members who handle wealth on behalf of people who have inherited the money.

Offenders argue that being a chief executive officer in a company is time consuming that little time can be spent on issues that are perceived as trivial. Shortcuts are part of the game.

Waiting for family members to raise the CEO compensation might seem both risky and time consuming.

THE CEO CASE

"I'm in jail, damn it, this is no country club," said Kjell Rune Staddeland to local Norwegian newspaper Agderposten (Fosse and Berglihn 2013: 24):

Former shipping CEO Kjell Rune Staddeland (50) was on the throne for years in terms of income. Today he is in jail and earns 42 kroner (about US \$ 5) the day.

A solid sunny house kneels on the hill above the entrance to the town of Arendal.

Sophienborg, the name of the former CEO's residence, was built in 1912 with spirals and towers. Large glass surfaces reflect the city and the fjord of Galtesund. Sparkling chandeliers and ship antiques from ancient splendor. Gas fireplaces, lanterns, baths and a majestic stove in the upper class are left from the last owner. Outside, the swimming pool is filled with a variety of leaves. The garage with its own parquet-coated showroom and space for five cars is empty. One of Arendal's most expensive houses is put up for sale.

- It feels like an assault, but I have neither the strength nor the means to fight. In that house I should live the rest of my life. Now I have not been there for over a year. I cannot even get what's left of private assets. The load will be too high, says Kjell Rune Staddeland.

The ex-shipping CEO is convicted of gross fraud of US \$ 2.4 million from his former employer, JBU Holding in the neighboring town of Grimstad. In addition, in a civil case, he has been sentenced to pay Johan Benad Ugland 20 million Norwegian kroner (about US \$ 2.5 million) in compensation for a loss in connection with the purchase of Acta shares. In total, Ugland lost 100 million on the Acta trade, but the peasant billionaire must take the bulk of the loss. Recently, Staddeland was transferred to criminal care in freedom in Kristiansand south of Grimstad, after having first seen a year and a half of the three and a half year sentence in Hassel prison at Skotselv, north of Drammen.

- I've been blocked with people who have committed killing, drug crimes. I have to deal with that on good and bad. I'm in jail for the heck, there's no country club.

Nobody can imagine what it's like to be in prison until you've been there, says Kjell Rune Staddeland.

Both final sentences in court were enforceable, but Kjell Rune Staddeland is planning new rounds in court against Ugland. First and foremost, he hopes for the resumption of the Acta case, but also the criminal case which he has previously unsuccessfully attempted to resume getting on the agenda.

- I cannot give up. Truth will be forthcoming. This is not about revenge or to bother Ugland. It's about justice, Staddeland says.

Kjell Rune Staddeland grew up in Kvinesdal with an older sister and a younger brother. Mom was at home, dad worked in oil. There was little evidence that the center of the siblings, Kjell Rune, would end up being one of the country's most successful executives - or as now: a prisoner.

- I did not walk around and dreamed of getting rich.

Johan Benad Ugland inherited the Ugland shipping empire from his father. Rather than spending time developing the business, he used his wealth to enjoy his hobbies. He bought farm land and became a farmer. He bought old cars and built a car museum. He set up a bank in the tax haven of Cayman Islands. He developed an amusement park in Kristiansand. He helped a university develop a campus in Grimstad. He helped entrepreneurs with a technology center in Grimstad.

When Ugland asked Staddeland to sell a business division of JBU Holding, Staddeland claims that Ugland promised him ten percent of the sum from the sale (Berglihn and Fosse 2013: 14):

- I think Ugland got cold feet when he saw the sales sum and what he had promised.

He came to me and said that I would get ten percent, but not of the sales price. I would

get ten percent of the profit. The premise was that I agreed to get the money paid abroad, and that I at the same time refrain from a so-called top-hat insurance that would give me 67 percent of my final salary in retirement pension for the rest of my life no matter how many years I had worked.

CEO Staddeland though owner Ugland owed him money because of this episode and other disappointments that he perceived. Therefore, he decided to enter into a fraud scheme. The securities firm that was hired to sell a business division of JBU Holding, agreed to transfer some of the money to Staddeland via some accounts in different tax havens. When the securities firm later became the focus of a police investigation in a different matter, police detectives discovered that some money that had ended up with Staddeland belonged to Ugland. Staddeland was prosecuted in court and sentenced to three years and six months in prison.

THE CFO CASE

Leif Marius Schatvet (51) admitted to financial fraud for several years as executive vice president of economics and finance at Aschehoug publishing house (Hammerstrøm and Ravn 2014). The CEO was Mads Nygaard (46), who had taken over the position after his father William Nygaard (70). The publishing house Aschehoug sent the following press release on the matter in the beginning of January 2014:

Subject: Crimes related to former group executive vice president of economics and finance at Aschehoug.

Aschehoug is currently delivering a report to the police concerning former executive vice president Marius Schatvet. The report concerns the circumstances that Schatvet has acknowledged. The misconduct dates back to 2010 and amounts to approximately 4.4 MNOK (US \$.5 million). In addition to this amount, another MNOK 1 of which

he illegally attempted to transfer to an account he had to his personal disposal. It was in connection with the last transaction that the misconduct was discovered on December 20, 2013. Misrepresentations are consistently carried out by means of constructive documentation in the form of fictitious agreements and forged signatures, as well as abuse of Schatvet's procure in the company. Aschehoug will go through all aspects of the company's internal control and routines, and will use external assistance in this work. This case has shown that the group needs to tighten its internal control and improve its routines to ensure that the same does not happen again, and that any attempted fraud will be detected sooner. Police work will show if there are further conditions not yet revealed.

Mads Nygaard

Nygaard asked Schatvet in 2010 to terminate the publishing house's involvement in a chain of bookstores in Norway. On behalf of Aschehoug, Schatvet had sole responsibility for selling Aschehoug's shares in the bookstore chain. Nobody else was involved in the project. Schatvet transferred some of the money to his personal account. On one occasion he typed on his computer his own bank account number with one digit mistake. That created the suspicion of an accountant in the publishing house, who reported the incident to a board member. The accountant's report caused Schatvet to be detected.

CFO Schatvet was sentenced to 3 years in prison for embezzling more than NOK 9 million (US \$1.1 million) from the company over a period of several years. Schatvet was also to reimburse Aschehoug and pay his former employer NOK 5 million in compensation (Silvola et al. 2014).

Schatvet had been a trusted executive and his false invoices and transfers of money to his own account went undetected until the day when he inadvertently sent more of Aschehoug's money to the wrong account. That alerted the company accountant to the scam and Schatvet

quickly confessed, resigning his position just days later. He has since made a full confession, claiming he was under financial pressure following a divorce when he first started embezzling Aschehoug's funds.

One speculation in the media was that Schatvet's embezzlement was motivated by a modest or even low CFO compensation compared to the CEO compensation to a person who had inherited the CEO position in the inherited publishing house. Schatvet had worked his way up to the CFO position, while Mads Nygaard was simply the son of his father (Nordseth 2014).

DISCUSSION

According to equity theory, individuals compare with a reference at their own discretion (Martin and Peterson 1987). Some executives may compare with other executives where they may feel that they are fairly or unfairly rewarded. Some executives in family-owned businesses may compare their work efforts and financial compensation that enable a certain standard of living with the standard of living of family members who have inherited the firm. CEO Staddeland may have compared his standard of living with heir Ugland. CFO Schatvet may have compared his standard of living with heir Nygaard. Both Staddeland and Schatvet probably found that it was unfair to work so hard for people who had inherited their wealth without being compensated at almost the same level. They both probably perceived inequity. Staddeland perceived in addition a broken promise from Ugland, while Schatvet in addition had financial strain because of a divorce and a new expensive cabin in the mountains.

As suggested by equity theory, individuals perceiving being unfair rewarded will feel distressed and therefore try to restore the perception of equity. Both CEO Staddeland and CFO Schatvet exploited the opportunity for illegal gain by conducting fraud where they had special assignments involving nobody else from the same organization. CEO Staddeland could claim entitlement to financial crime because he perceived being promised something

that was not delivered by his superior. Financial crime occurred in defense of fairness. CEO Staddeland took remedial action to make the situation more equitable (Burrai et al. 2015). CFO Schatvet tried to remove the feeling of discomfort (Leigh et al. 2010) both from unbalanced equity and from personal financial strain. Especially CEO Staddeland – but also CFO Schatvet – constructed personal opinions of what was right and what was wrong (Roehling et al. 2010).

By applying neutralization techniques, white-collar offenders think they did nothing wrong (Siponen and Vance 2010; Stadler and Benson 2012). Neither CEO Staddeland nor CFO Schatvet considered the inheriting owners to be victims. Especially CEO Staddeland condemned heir Ugland by using the neutralization technique of condemning the condemner. Both CEO Staddeland and CFO Schatvet claimed entitlement to their illegal actions.

We have little evidence that CEO Staddeland and CFO Schatvet had narcissistic tendencies (Ouimet 2009, 2010), although they seemed to express relative narcissism where they thought they were extremely useful and valuable to their organizations relative to the heirs Nygaard and Ugland. Especially CEO Staddeland seemed to suffer from narcissistic identification (Galvin et al. 2015), where he basically perceived himself as the company and the savior of the enterprise. CEO Staddeland expressed a very strong belief in his personal resources and abilities (Judge et al. 2009).

As suggested by Vardaman et al. (2018), practices in family businesses may often be unfair for nonfamily employees who can be treated as second class citizens in the business compared to family members. Although there is no evidence in our CEO and CFO cases, both Staddeland and Schatvet may have perceived unfair treatment because of their nonfamily status. The socioemotional wealth accumulated over generations in both Ugland and Aschehoug can imply a perception of mistreatment and exploitation by the family.

The upper echelons of publicly traded family firms can comprise family members and nonfamily members, where there is not only inequality financially but also inequality in terms of structural power. Due to ownership and control factors, family members – even if they do not contribute much – often wield significant influence on the firm (Patel and Cooper 2014). If nonfamily members such as CEO Staddeland and CFO Schatvet lack sources of influence, they may exhibit lower participation and perceive the financial inequality even more severely, which in turn can create a feeling of legitimacy when committing fraud and embezzlement. The structural power of family members can be present in different ways. For example, family firms are often portrayed as an important yet conservative form of organizations that are reluctant to invest in innovation (Duran et al. 2016). An innovation-oriented nonfamily member may perceive severe obstacles when confronted with family members who are more concerned with tradition.

In a principal-agent perspective, where the family is the principal and nonfamily executives are agents, a number of relational problems can occur: different preferences, knowledge asymmetry and risk discrepancy (Bosse and Phillips 2016). For example, Hillier et al. (2018) found that family firms have less strict debt contracts, which are even less strict when family firms have higher asset tangibility. Mazzelli et al. (2018) found that family firms align with their closest peers to avoid social losses. Fattoum-Guedri et al. (2018) found that asymmetrical distribution of voting power among family and nonfamily hurts firm performance. Peng et al. (2018) suggest that family firms often have a long-term institution-based view of their firms that is not necessarily shared by nonfamily executives. Furthermore, family firms tend to be operated to enhance the well-being of owning families and their members (Nordstrom and Jennings 2018). The structural power of family members can again cause lower participation rate and perceived entitlement to deviant behavior among nonfamily members.

CONCLUSION

Nonfamily executives may have a motive, an opportunity and a willingness to commit embezzlement in family firms as illustrated by the case of a CEO and a CFO in Norway. The motive is derived from lack of equality that the offender wants to restore. The opportunity is derived from the lack of control by family members in a principal-agent perspective. The willingness is derived from the treatment as a second class member of the organization compared to family members. Thus to avoid embezzlement by trusted nonfamily executives, families need to compensate them at a level that executives perceive as fair and equal. Furthermore, families need to involve themselves in business operations for the sake of controls. Finally, structural power equality needs to be introduced between family and nonfamily members of the organization.

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