Corrupt Behaviors in the Finance Sector: Theory, Typology and Control Mechanisms at Brazilian Banks

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The literature on corruption consists of a variety of perspectives including ethical decision-making (Jones, 1991), government, political and legislative corruption (Schleifer & Vishny, 1993); normalization of corruption (Ashforth & Anand, 2003) and social networks (Nielsen, 2003). While management scholars have examined corruption at those different perspectives, the financial and behavioral level studies are until underexplored. We proposed a behavior and control approaches as way to suggest insights to mitigate the manifestation of corruption in the finance organizational environment. Theoretical foundations permeating the relationship among corrupt behaviors and financial practices to prevent corruption are still incomplete. Taken as whole, the organizational corruption literature is rife with inconsistencies and inconclusive empirical results. The existing studies do not extend to the possible inter-relationships between the phenomenon manifestation and the possible controlling mechanisms to interrupt them. The spread of corrupt acts affects negatively the financial results and corroborates to deteriorate corporate image. Corruption is responsible for making less money in almost every country and it involves a capital deviation around US$ 1 trillion per year worldwide (Zinnbauer, 2012). We develop our study around the question of which are the main corrupt behaviors and anti-corruption control processes in the financial sector. In financial area, corruption gets larger dimensions because of the huge amount of money circulating and the ease access of misconduct practices. Our purpose is to identify the major corrupt behaviors and the mechanisms to avoid corrupt actions in banks. The Brazilian banking sector is the subject of analysis of the research.

Marco Teórico
The word of corruption derives from Latin term corruptionis, which is the conjugation of two Latin terms cum and rumpo (verb break). It means a complete break; break the whole; break it completely. Corruption also expresses disruption or deviation of a moral code or social behavior. The word also carries a strong negative sense that qualifies conditions and actions associated with degeneration, perversion and bribery. Klitgaard (1991) presents an analytical perspective of corrupt action focused on three propositions. Firstly, we have to recognize that corruption is a multidimensional phenomenon that can take place at organizations of any kind. It is manifested in both external and internal contexts. Second, we also should consider corruption as the action of a group of people whose ethical standard does not fit in the moral standard set by society. The third assumption refers to the fact that people have free will and act according to their value orientations rather than any established legal standard. One of the organizational corruption causes is associated to the search for incomes or rent-seeking that is defined as being the competence of companies, executives or interest groups who organize themselves in order to get privileges, income and financial favors. Although rent-seeking is not the only source of corruption and entrepreneurs are not the only corrupts in the corporate arena, this device draws attention because of their recurrences and interactions with the public sector. Identifying and describing corruption practices seem to be the most satisfactory alternative to open up for a deeper understanding about the complexity of corrupt behaviors. Olivier de Sardan (1999) uses the term ‘corruption complex’ to include practices beyond corruption in the strict sense of the word; for instance nepotism, abuse of power, embezzlement and various forms of misappropriation, influence peddling, prevarication, insider trading and abuse of public purse. Fraud and money laundering are also two other corrupt practices standing out in the literature. More corrupt types are considered in the
literature: 1. Not accounted cashes - accumulating funds not official accounted. 2. Active bribery - offering to an individual, any undue advantage expecting back illicit benefits. 3. Passive corruption - soliciting or receiving, for oneself or another, an undue advantage. 4. Influence peddling - asking, demanding, collecting or getting for oneself or others, advantages and benefit promises. In other words, using an authority to get favours or special treatments, most of the time, expecting back payment for that. 5. Gang of criminals – people get together having criminal objectives. 6. Management reckless - managing third party funds in a risky way. 7. Administrative law - sponsoring the public worker directly or indirectly. 8. Concussion - requiring, for oneself or others, directly or indirectly, any undue advantage. In this study we explore the means of controlling the corrupt behaviors in finance organizations.

The literature of finance organizational control has two main streams: controls oriented toward outcomes and controls transmitted through administrative and social channels. Administrative controls are those that are intentionally designed, and social controls are those that emerge unintentionally through the social interactions of organizational members. (Lange, 2008) Our purpose is to seek an in-depth understanding of corruption behaviors, practices and control processes in the financial sector.

Método de investigação se pertinente

The methodology employed in this study embraced both qualitative and quantitative techniques. Initially, a qualitative approach was used to evidence the attributes of the meanings concerning control mechanisms against corruption behaviors and practices, within the financial system. Afterwards, we proceeded to the quantification of the qualitative data, through frequency’ statistics combinations to determine associations among the constructs of this study. The research may also be framed as an exploratory and descriptive. The exploratory study deals with issues that are poorly investigated; therefore it has not been accumulated a substantial literature revision. Despite the recent thematic of corruption, very few researches focus on identifying corrupt behaviors, practices and anti-corruption control processes. In order to recognize the main corruption practices and their mechanisms of control in the Brazilian financial system, we have interviewed 23 professionals, who work in different areas at four main banks in Brazil: Banco do Brasil and Caixa Economica Federal (the two biggest public Brazilian Banks), Santander (the biggest foreign bank in the country) and Itaú-Unibanco (the biggest Brazilian private bank). Interviews were arranged with top, medium and operational bank managers, auditors, lawyers and technicians whose work in financial activities. The choice of this sample followed the criteria of convenience, due to the refusal of several employees to be interviewed and the companies’ reluctance to formalize the research. In the interview script we ask respondents to report on corruption situations. It was structured as open-ended questions that allowed respondents to talk about corruption case stories, including the reasons for the beginning of the action, the actors and the available mechanisms controls. With the thematic analysis we identify the themes, sub-themes and a semantic content of the sub-themes identified in the oral statements. Collected data from interviews were treated as follows: • Interview’s transcription and its review; • Exhaustive reading of the collected material; • Data structuring in sub-themes and semantic contents. The texts produced from the interviews are grouped into units (categories) and the semantic contents were described and rated in accordance to the analogical regroupings.

Resultados e contribuições do trabalho para a área

Corruption issue was addressed in the interviews using various perspectives that allowed a more accurate identification of their attributes and perceptions in the Brazilian financial system environment. Through the analyses of the oral statements, we identified and structured the following sub-themes: • Meanings of corruption; • Corrupt behaviors known in the
financial system; • Corruption practices experienced; • Corruption practices with higher recurrence; • Corruption practices with stronger impact; • Control mechanisms to avoid corrupt acts. We explore the meanings attributed to corruption by the bank managers to understand how the construct was perceived in the financial sector. Four meanings of corruption (semantic content) were identified in the interviews. Conceptions associated to: public resources embezzlements; subversion of norms and laws; taking of personal benefit; use of power. The subtheme corrupt behaviors known in the financial system have demonstrated the magnitude of corrupt actions promoted in the financial sector. We identified 24 behaviors making use of corrupt actions in several bank areas. In the analysis of statements regarding the subtheme experienced corrupt practices, a set of corruption activities were described by the managers, such as, activation of credit cards without clients’ authorization, creation of fake accounts to get loans and misappropriation of resources from cash and clients accounts. Document forgery and misappropriation of withdrawal resources from current accounts, treasury and bank terminal services are the most common corrupt practices. The act of falsifying may happen concomitantly to the embezzling money. As checked from the interviews, the structuring of loans for its own benefit was conducted using relatives’ names, or businesses demand the preparation of all documentation for the fraud success. These cases were found out in the misuse of the government resources PRONAF - Brazilian National Program for Strengthening Family Agriculture. Another Brazilian public aid is for food and housing named “Bolsa Família” (Family Public Aid) and “Minha Casa, Minha Vida” (My small apartment, My Life) respectively. If on one hand, over 60% of respondents have experienced corrupt practices on the other hand, 95% of respondents confirmed the inexistence of indicators that measure corrupt behaviors within their organizations. Both semantic contents “courses and training in anti-corruption actions” (audit, compliance, risk management, etc.) and “investments in the areas of audit and control”, each one representing 23.53% of all the given answers, are reminded as relevant organizational strategies to reduce corruption actions. The interviews in this research have enabled us to have a deeper understanding on corrupt behaviors most often done in the Brazilian financial system, as well as the main mechanisms adopted by banks to prevent and mitigate these actions. Although, in the corruption control design the individual differences concerning corrupt behavior were normally neglected, this study contributes to the literature about corruption organizational control indicating that we have to consider the distinguish differences between the traditional and corruption concepts of organization control. Revisiting the theoretical statements about the main effects of corruption control proposed by Lange (2008), the present study indicates that, since corrupt behaviors pursuit individual interests through the intentional misdirectional of the organizational resources, it is also important to associate corrupt practices with anti-corruption controls. Most of the time, corrupt actors know about the bureaucratic controls to fight against corruption. Consequently, many means of control used in organizations, like bureaucratic mechanisms, cannot be described as anti-corruption processes. In general, appropriate actions in cases of corruption occur in a "domestic" way, because of the risk of a greater disclosure could deteriorate the institution image, shaking the confidence of clients and shareholders. These factors limit the knowledge of all available corruption actions.

Referências bibliográficas